

PUBLIC DISCLOSURE

June 2, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Banco Popular de Puerto Rico
02-72-0060**

**P. O. Box 2708
San Juan, Puerto Rico 00936-2708**

**Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution.

Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Banco Popular de Puerto Rico** prepared by **The Federal Reserve Bank of New York**, on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of **June 2, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

The new CRA regulation was phased in over a two-year period beginning July 1, 1995. During that period, banks with total assets greater than \$250 million were examined under the current regulation with its 12 assessment factors until July 1, 1997. However, to comply with the requirements of Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, this evaluation includes conclusions with respect to overall performance as well as the bank's performance in each Metropolitan Statistical Area (MSA) and non-MSA which the bank has delineated for CRA purposes.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

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DISCUSSION OF INSTITUTION-S PERFORMANCE

INSTITUTION-S CRA RATING: Banco Popular de Puerto Rico (ABanco Popular®) is rated outstanding based on the findings presented below.

Banco Popular-s performance with respect to the Community Reinvestment Act is assessed as Aoutstanding. Bank management has made a significant commitment to meet community credit needs through substantial participation in community development projects and programs that support economic development, affordable housing and community services within the delineated community. Banco Popular also offers a comprehensive line of special credit products with innovative and flexible terms that support home ownership and home improvement, small business and consumer credit needs. Overall lending performance with regard to home purchase, refinance and home improvement lending is outstanding, based on the number of owner-occupied housing units in each geographic area and the bank-s performance in low- and moderate-income (ALMI®) census tracts compared with performance in non-LMI tracts. Small business performance is also rated outstanding on the basis of the bank-s overall volume of small business lending throughout its delineation. Although the bank-s record of meeting community credit needs is outstanding overall, some geographic areas reflect weaknesses indicated by either nominal loan volumes or low penetration levels relative to available lending opportunities.

The findings in this examination took into account the nature and scope of Banco Popular-s banking operations and business strategies in each of three separate jurisdictions in its delineated community, the Commonwealth of Puerto Rico, New York State, and the United States Virgin Islands. Significant weight was placed on the bank-s performance in Puerto Rico, and in particular MSA 7440 (San Juan, PR). This area accounted for the primary concentration of the bank-s total retail business market, branch network and retail customer base.

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DESCRIPTION OF INSTITUTION:

Banco Popular is a banking corporation organized under the banking laws of the Commonwealth of Puerto Rico, headquartered in Hato Rey, Puerto Rico. The bank is a subsidiary of BanPonce Corporation, a publicly owned bank holding company incorporated in Puerto Rico. Banco Popular has three subsidiaries: Popular Finance Inc., a small loan and secondary mortgage company; Popular Leasing, Inc., a motor vehicle and equipment leasing and rental company; and Popular Home Mortgage, Inc., a mortgage origination and secondary marketing subsidiary.

As of March 31, 1997, the bank had total assets of \$14.8 billion and net loans and leases of \$8.2 billion. Banco Popular operates 213 retail branches, including 177 in Puerto Rico, 29 in New York City, and 7 in the United States Virgin Islands.

There are no financial or legal factors that would impede the bank in fulfilling its responsibilities under CRA.

REASONABLENESS OF DELINEATED COMMUNITY:

As of March 31, 1997, the bank's CRA delineation included all or portions of eight MSAs and certain non-MSAs in the Commonwealth of Puerto Rico, New York State and the United States Virgin Islands. The delineation consists of the following areas:

- C The Commonwealth of Puerto Rico: All of the following MSAs: MSA 7440 (San Juan, PR), MSA 6360 (Ponce, PR), MSA 1310 (Caguas, PR), MSA 4840 (Mayaguez, PR), MSA 0470 (Arecibo, PR) and MSA 0060 (Aguadilla, PR), and the non-MSA municipalities of Adjuntas, Aibonito, Arroyo, Barranquitas, Ciales, Coamo, Culebra, Guanica, Guayama, Isabela, Jayuya, Lajas, Lares, Las Marias, Maunabo, Maricao, Orocovis, Pattillas, Quebradillas, Rincon, Salinas, San Sebastian, Santa Isabella, Utado and Vieques.
- C The New York City Community: A portion of MSA 5600 (New York, NY) consisting of Bronx, Kings, New York and Queens Counties.
- C The United States Virgin Islands: The non-MSA islands of St. Thomas, St. Croix and St. John.

The bank has expanded its New York City delineation since the previous examination. On October 1, 1996, the board approved the inclusion of all of Bronx, Kings, New York and Queens Counties in the New York delineation. Previously, only portions of the counties were delineated. According to 1990 Census data, this expansion increased the population in the New York delineation from approximately 5 million to 6.9 million, an increase of about 38 percent. There were no other changes to the bank's delineation.

The bank's current delineation is based on the political boundary and effective lending territory

criteria permitted by Section 228.41 (c)(1) and (2) of Regulation BB, revised as of July 1, 1997. The delineation is reasonable and does not arbitrarily exclude LMI areas.

The total population of the delineation approximates 10.5 million, with about 3.0 million, or 29 percent, residing in LMI geographies. There are approximately 1.5 million owner-occupied housing units in the delineation, with about 255 thousand, or 17 percent, located in LMI geographies.

The following maps represent the bank's delineated communities.

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CONCLUSIONS WITH RESPECT TO PERFORMANCE CATEGORIES:

Following is a summary of Banco Popular's CRA performance based on the five performance categories:

1) community development; 2) geographic distribution and record of opening and closing offices; 3) marketing and types of credit offered and extended; 4) discrimination and other illegal credit practices; and, 5) ascertainment of community credit needs. Refer to the separate analyses beginning on pages BB 18, BB 79 and BB 99 for the Commonwealth of Puerto Rico, the State of New York and the territory of the U.S. Virgin Islands, respectively, for further details regarding the assessment factors that deal with performance as well as community profiles.

I. COMMUNITY DEVELOPMENT

Assessment Factor H - the state member bank's participation, including investments, in local community development and redevelopment projects or programs.

Banco Popular's overall community development performance is outstanding. This examination covered community development activity from August 1, 1995 through May 31, 1997. The bank's volume of direct and indirect loans and investments reflects strong support of community development programs and initiatives throughout its entire delineated community. The activity includes a high percentage of direct loans for innovative projects that support community credit needs. Community development performance is outstanding in all three of the jurisdictions, Puerto Rico, New York State and the United States Virgin Islands, included in the bank's delineated community. Although the overall commitment of community development dollars is outstanding, the actual dollar distribution varies among MSAs and non-MSAs within the bank's delineation.

Banco Popular's management has implemented a strategy which concentrates primarily on the Commonwealth of Puerto Rico, with particular emphasis on the San Juan MSA. This strategy is reasonable in light of the bank's distribution of its branch network and resources. In the delineated communities outside of Puerto Rico, the bank's community development performance is also outstanding in relation to the size and scope of the bank's business operations.

For the evaluation period, Banco Popular's community development activity totaled \$107.3 million, of which 93.9 percent, or \$100.8 million, represented new commitments.

Of total activity, \$64.1 million, or 59.7 percent, was dedicated to affordable housing projects. Economic development activity consisted of \$39.4 million dollars, or 36.7 percent of the total activity, with community services totaling \$3.7 million or 3.5 percent, of total activity. In addition, the bank issued a \$19 million standby letter of credit for community development purposes.

Community development activities were primarily centered on affordable housing initiatives

involving both direct and indirect financing. As stated previously, \$64 million of the total \$107 million of community development activity provided for the construction or rehabilitation of approximately 3,900 owner-occupied or rental housing units in the bank's delineated areas. Management identified owner-occupied affordable housing as the most pronounced financing need in Puerto Rico, whereas in New York City management identified affordable rental housing as the more critical need in the bank's delineation. These housing needs in the respective communities were consistent with comments from community contacts and performance context information for the bank's delineation.

Community development activity in Puerto Rico totaled \$75 million and represented 70 percent of total overall community development activity. This level of participation is reasonable in light of the bank's overall business strategy, branch concentrations and resources, as noted above. Community development in New York totaled \$17.8 million, or 16.5 percent, and in the U.S. Virgin Islands the activity totaled \$14.6 million, or 13.6 percent.

See Exhibit A-1 on page BB 16, which shows Banco Popular's community development commitments for Puerto Rico, New York State and the U.S. Virgin Islands.

II. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The geographic distribution of Banco Popular's lending activity was determined through an analysis of Home Mortgage Disclosure Act (HMDA), small business, and consumer loan data for the last seven months of 1995, all of 1996 and the first quarter of 1997. Overall, the bank's efforts to meet the credit needs in its delineated community, including in LMI areas, is outstanding. The analysis demonstrates outstanding home improvement and small business loan activity, and reasonable home purchase and refinance activity throughout the various income geographies in the delineation. In New York State, the bank is primarily a consumer and a small business lender; accordingly, the bank's consumer loans as well as its small business loans were analyzed. Although the bank demonstrated strong overall loan activity among the various income geographies within the delineation, some loan penetration weaknesses in certain MSAs and non-MSAs were identified.

Conclusions varied by geography, but the primary reliance was placed on the performance in Puerto Rico in reaching the overall conclusion. As of March 31, 1997, 80 percent of the bank's assets and 83 percent of Banco Popular's branches were in Puerto Rico. The bank's New York delineation contains 12 percent of the assets and 14 percent of the total branches. The bank is primarily a full service retail bank in Puerto Rico, whereas in New

York it is predominately a consumer and small business lender. Additional details on the bank's operations in Puerto Rico and New York are set forth commencing on pages BB 20 and BB 80, respectively.

In Puerto Rico, extremely low median family incomes and the existence of a government agency that provides affordable housing financing affected the bank's loan penetration performance. These factors did not affect the home improvement HMDA product. Consequently, home improvement lending in Puerto Rico is more indicative of the bank's overall HMDA performance and was given more weight in reaching the overall conclusion. Home purchase, refinance and home improvement information in the U.S. Virgin Islands is limited to originations by the bank. Loan activity in the U.S. Virgin Islands is not subject to HMDA reporting requirements, and, therefore, the bank's internal data was used in evaluating the bank's performance in this jurisdiction.

Small business loans originated by Banco Popular in New York State prior to January 1, 1996 were defined by the bank as loans for business purposes with origination amounts of \$750 thousand or less. Subsequent to that date, the revised Community Reinvestment Act defined small business loans as loans with origination amounts of \$1 million or less. Separate analyses were performed using the two different benchmarks for the respective time periods. Data on the number of small business establishments were obtained from the 1996 business information provided by Claritas, Inc., a company that derives its demographic data from the U.S. Bureau of the Census. This information was used to identify the number of small business establishments within LMI geographies and non-LMI geographies in the New York delineation. This provided the means for measuring the bank's performance on a demand-adjusted basis, that is, on the basis of the proportion of small business loans per thousand small business establishments in an area, within the different income geographies in New York. No such data were available for Puerto Rico, therefore no demand-adjusted small business analyses could be performed. Small business loans originated by Banco Popular in Puerto Rico prior to January 1, 1996 were defined by the bank as loans for business purposes with origination amounts of \$100 thousand or less. Subsequent to that date, the bank submitted for consideration all loans of \$1 million or less to businesses with gross annual revenues of \$1 million or less, which fall within the general definition of small business loans under the revised Community Reinvestment Act. The small business loans reported for both periods were consolidated and evaluated by monthly loan volumes and their distribution by MSA and non-MSA relative to the bank's business presence and demographic data.

Analysis of Banco Popular's consumer loan activity in its New York assessment area, on a demand-adjusted basis, covered the period June 1, 1995 through March 31, 1997. Small business loan originations in the New York delineation were also analyzed on a demand-adjusted basis, for the periods June 1, 1995 through December 31, 1995 and January 1,

1996 through March 31, 1997. See Exhibits C-2 through C-4 on pages BB 93 - 95.

Small farm loans originated by the bank in Puerto Rico from June 1, 1995 to December 31, 1995 were defined as loans for agricultural purposes with origination amounts of \$100 thousand or less. With respect to loans originated subsequent to that date, the bank submitted for consideration loans of \$500 thousand or less made to farms with gross annual revenues of \$1 million or less. The small farm loans reported for both periods were consolidated and evaluated as part of the bank's small business loan performance. See Exhibit B-6 on page.

Details of performance in each MSA or non-MSA in the three separate jurisdictions included in the bank's delineated community are set forth in subsequent sections of this report, on pages BB 28, BB 79, and BB 99, respectively.

HMDA Lending Summary

The bank achieved strong to reasonable loan penetration levels throughout its entire delineation, although results varied somewhat throughout the three jurisdictions. The primary reliance in reaching the overall conclusion was placed on the bank's HMDA loan performance in Puerto Rico, where home improvement lending was given the most weight in the overall rating. In Puerto Rico the bank showed strong HMDA loan performance, and performance in New York and the U.S. Virgin Islands was rated as reasonable.

The demand-adjusted home improvement penetration rates in MSA 7440 (San Juan, PR) and MSA 0470 (Arecibo, PR) were strong. The bank had reasonable loan penetration in MSA 1310 (Caguas, PR), MSA 4840 Mayaguez, PR) and the non-MSAs. However, weaknesses were noted in MSA 6360 (Ponce, PR) and MSA 0060 (Aguadilla, PR). Loan application and approval activity for home purchase and refinance was reasonable throughout most of the geographies in Puerto Rico, but weak performance was noted in MSA 6360 (Ponce, PR), and MSA 0060 (Aguadilla, PR). Some municipalities in Puerto Rico were not considered material to the demand-adjusted lending analysis because of a lack of lending opportunities in LMI areas.

In New York, the geographic distribution of the HMDA loan activity of Banco Popular's New York branches was reasonable. The only county which experienced a higher loan penetration in non-LMI census tracts than in LMI areas was Kings County.

For discussions on the HMDA lending analyses for each of the three jurisdictions, see page BB 20 for Puerto Rico, page BB 80 for New York State, and page BB 100 for the U.S. Virgin Islands.

Small Business Lending Summary

Overall, the bank's small business loan performance is considered strong. In Puerto Rico, the bank originated 25,858 small business loans, an exceptionally high number, during the examination period. In addition to the high volume of loans, the bank's distribution of loans based on branch presence and the percentage of populations within the respective MSAs reflected good geographic distribution. In New York, the bank's small business loan penetration is considered strong. On a demand-adjusted basis, approvals in LMI census tracts exceeded those in non-LMI tracts.

Consumer Lending Summary

The bank demonstrated an excellent record of meeting the consumer credit needs within its New York community, especially in LMI census tracts. The bank originated almost 15,000 loans, 67 percent of which originated in LMI census tracts, which make up 36 percent of the total census tracts within the bank's delineated community. The bank exhibited only a nominal weakness in Queens County.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

As of March 31, 1997, Banco Popular maintained a network of 213 retail branches in its overall delineation. Since the previous examination on August 1, 1995, 14 branches were opened and 4 were closed or consolidated. All the branch openings, three of which were in LMI geographies, occurred in Puerto Rico. Of the closings or consolidations, three occurred in Puerto Rico and one in New York State. The branch consolidation in New York was in an LMI geography. There were no changes to the branch network in the U.S. Virgin Islands. See Exhibit A-2 on page BB 17, for the distribution of the bank's branches for each of the communities in which the bank operates.

The bank has an adequate branch closing policy in place for each of the communities in which it operates. For details, see the discussion of Assessment Factor G in the performance evaluation for each of the three jurisdictions in the bank's delineated community.

III. TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or farm loans within its community, or the purchase of such loans originated in its community.

Within its various communities, Banco Popular offers a broad range of lending products

to help meet community credit needs. Real estate lending products generally include residential mortgage, home improvement, and construction loans. The bank also offers a wide variety of consumer loans and small business loans. Many of the loan products have flexible and innovative lending criteria directed specifically toward meeting credit needs in LMI geographies. This Assessment Factor is addressed in the performance evaluation for each jurisdiction.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small business, or small farms.

Banco Popular actively participates in a variety of government-insured housing, small business, and small farm programs within its various communities. For example, the bank originates a substantial number of residential mortgage loans guaranteed by the Federal Housing Authority (AFHA®) and the Veterans Administration (AVA®). These loans offer more flexible lending standards than do conventional loans, generally making home ownership more affordable by reducing the amount of the down payment.

Throughout its delineation, the bank is an active Small Business Administration (ASBA®) lender. For the fiscal year 1996 (October 1, 1995 through September 30, 1996) Banco Popular ranked first in dollar volume of SBA loans in the New York district, which includes Puerto Rico. During this period, the bank originated approximately \$30 million in SBA-guaranteed loans.

As with conventional loan products, specific products are unique to each of the three jurisdictions in the bank's delineation; therefore, detailed discussions regarding participation in government-insured loan programs is found in the performance evaluation for each of these jurisdictions

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

There is no evidence of any practices intended to discourage credit applications for products that the bank offers. The bank affirmatively solicits credit applications from all segments of its communities, including LMI areas. Senior management has comprehensive written policies, procedures and training programs in place to ensure that the bank does not discourage or pre-screen applicants.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

No credit practices were identified that violated provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act and the Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

V. CONCLUSIONS WITH RESPECT TO ASSESSMENT FACTORS AND CRITERIA THAT PERTAIN SOLELY TO THE CRA PROCESS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Banco Popular's overall ascertainment efforts are outstanding, and effective in identifying community credit needs and lending opportunities throughout the bank's various communities, including LMI areas.

In all communities, the bank has established ongoing, meaningful contact with a wide variety of community-based organizations, governmental entities, local groups and individuals. Contacts are carried out primarily through active management and employee contact, as well as seminars and educational programs. Marketing studies and questionnaires are also used as a method of identifying unmet needs for financial services. Ascertainment efforts are administered by the local CRA Officer and results are regularly reported to the board of directors.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Board of director participation in the CRA process is outstanding. The board exercises active policy oversight, approving annual CRA strategic plans, and regularly reviewing CRA performance in each of the three jurisdictions in the bank community. The board has a CRA committee to serve as liaison with the full board regarding CRA activity. The CRA committee receives relevant ascertainment and marketing information from the Puerto Rico CRA Officer, who is responsible for CRA compliance in Puerto Rico and the U.S. Virgin Islands, and the New York CRA Officer, who is responsible for CRA compliance in New York. The committee also reviews a periodic analysis of the geographic distribution of the bank's small business and mortgage loans. The board has demonstrated a strong commitment to the bank's delineated communities, including LMI areas, through

the introduction of unique credit products and services and through the bank's substantial involvement in community development activities.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Overall, Banco Popular has a strong marketing program which employs various advertising media to reach effectively all portions of the delineated communities, including LMI areas. The bank employs a variety of advertising tools to market its consumer and businesses products, placing primary reliance on local print and broadcast media. In addition, Banco Popular utilizes direct mail, statement inserts and seminars to facilitate public awareness of both the bank and its products. The marketing department in Puerto Rico is responsible for marketing programs in Puerto Rico and the U.S. Virgin Islands, while marketing efforts in New York are managed locally.

COMMONWEALTH OF PUERTO RICO

CRA RATING FOR THE COMMONWEALTH OF PUERTO RICO:

Banco Popular's level of compliance with the Community Reinvestment Act in the Commonwealth of Puerto Rico is considered outstanding. The bank has demonstrated a significant commitment to CRA through substantial participation in community development projects and programs that support both affordable housing and economic development in the bank's delineated community. The bank also offers a comprehensive line of innovative special credit products with flexible terms that support home ownership, home improvement and small business needs, especially in the LMI areas of the community. The bank has effectively marketed these products to all segments of the bank's delineated community. Overall, HMDA-related lending performance is strong, led by the bank's strong performance with regard to its home improvement application and approval activity in LMI areas. Small business lending is also strong, based on excellent loan volume and distribution throughout the most heavily populated areas of Puerto Rico. Weaknesses in both mortgage and home improvement lending were noted in MSA 6360 (Ponce, PR) and MSA 0060 (Aguadilla, PR).

SCOPE OF THE EXAMINATION:

The examination period covered activity from June 1, 1995 through March 31, 1997. The geographic distribution of the bank's lending activity was determined through an analysis of the bank's HMDA-related loan applications and approvals (home purchase, refinance and home improvement), and small business and small farm originations. HMDA-related loans included the activity of Banco Popular and its subsidiaries Popular Finance, Inc. and Popular Mortgage, Inc. Small business loans reported for 1995 were defined by the bank as loans to businesses in amounts less than \$100 thousand. Beginning January 1, 1996, the bank revised its definition of small business and small farm loans to comply with revisions to Regulation BB. For the purpose of this examination, small business loans originated or purchased by the bank subsequent to January 1, 1996 were loans of \$1 million or less to businesses with gross annual revenues of \$1 million or less. The bank also reported small farm loans for this same period which were defined as loans of \$500 thousand or less to farms with gross annual revenues of \$1 million or less.

For community development performance, the analysis included all of the activity of Banco Popular in Puerto Rico from August 1, 1995 through May 31, 1997.

DESCRIPTION OF THE BANK'S OPERATIONS IN PUERTO RICO:

Banco Popular operates the largest retail branch banking network in Puerto Rico. As of March 31, 1997, the bank had 177 full service branches, 13 limited service facilities including automobile and mortgage loan centers, and 123 remote automated teller machine (ATM) locations on Puerto Rico. Exhibit B-3, on pages BB 58 and BB 59, shows the location and number of Popular's branches as of March 31, 1997. Of the total full service branches, 37 or 21 percent, are located in census tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CATEGORIES:

Conclusions regarding overall performance in Puerto Rico are based primarily on the bank's performance in MSA 7440 (San Juan, PR). This MSA contains 58 percent of the bank's full service branches in Puerto Rico. The MSA also represents the greatest opportunities for lending and community development activity. Total population in MSA 7440 is 1.8 million, which is 52 percent of the total population of Puerto Rico.

Most importantly, MSA 7440 contains 73 percent of Puerto Rico residents residing in LMI areas. Some of the municipalities in Puerto Rico were not considered material to the demand-adjusted lending analysis because of a lack of lending opportunities in LMI areas. Specifically, in the non-MSAs, 18 of the 25 municipalities contained no LMI census tracts.

I. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Banco Popular's overall community development performance in Puerto Rico is outstanding. Management allocated considerable time and resources to identifying and addressing community development opportunities in Puerto Rico.

Community development activity on Puerto Rico totaled \$74.9 million, representing 70 percent of the bank's total community development activity in all of its delineated communities. Of total activity on Puerto Rico, \$61.8 million in commitments or 83 percent are specific to MSAs or the non-MSA portion of Puerto Rico, while \$13 million or 17 percent represents island-wide activity. Island-wide investments and grants and donations consisted of \$5 million in qualified investments for economic development, \$6.6 million in qualified investments for affordable housing, and \$523 thousand in grants and donations. In addition, Banco Popular provided a \$19 million standby letter of credit to promote economic development in the San Juan MSA. See Exhibits B-1 and B-2 on pages BB 56 and BB 57.

The bank's community development loan and investment commitments consisted of

\$45.9 million (61 percent) to support affordable housing, \$26.9 million (36 percent) in support of economic development projects, and \$2.1 million (2.8 percent) for community service projects.

The largest concentration of community development activity was in MSA 7440 (San Juan, PR), \$49 million representing 65 percent of total activity on Puerto Rico. Banco Popular made community development commitments of \$1.8 million or 2.4 percent of total activity on Puerto Rico in MSA 6360 (Ponce, PR) and \$1.4 million or 1.9 percent in MSA 0060 (Aguadilla, PR). In each of the following MSAs, the level of activity was less than 1 percent of total Puerto Rico activity: MSA 1310 (Caguas, PR), MSA 4840 (Mayaguez, PR), and MSA 0470 (Arecibo, PR). In the non-MSA portions of Puerto Rico, the community development commitment was \$8.2 million, or approximately 11 percent of Puerto Rico activity.

A discussion regarding the bank's community development performance in each MSA and the non-MSA portion of the delineation is included in the MSA and non-MSA analyses beginning on page BB 28.

II. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

Overall, the geographic distribution of home improvement, mortgage and refinance, and small business loans reflects strong penetration throughout Banco Popular's delineated community. Exhibits B-4 and B-5, on pages BB 60 and BB 61 respectively, reflect the bank's home improvement, mortgage and refinance activity for Puerto Rico on a demand-adjusted basis. Small business loan originations in Puerto Rico are reflected in Exhibit B-6, on page BB 62, which breaks out the volume of small business lending by MSA and includes the percentage of branches and the percentage of the population in each respective MSA. Conclusions varied somewhat by MSA and non-MSA, but primary reliance in reaching the overall rating was placed on performance in MSA 7440 (San Juan, PR). The San Juan MSA represents the largest concentration of population (52 percent) and individuals living in LMI census tracts (73 percent) in Puerto Rico. The majority of mortgage and home improvement lending, 58 percent and 66 percent respectively, was concentrated in MSA 7440, as was 56 percent of Puerto Rico's small business loan originations.

Low mortgage loan volume in some LMI census tracts was affected by two contributing factors. First, extremely low median family incomes that preclude affordability: LMI census tracts have median family incomes that are 80 percent or less than Puerto Rico's

average median family income of \$12,643. Low-income housing is in short supply, and incomes at this level are not sufficient to support a conventional mortgage payment for a moderately priced house. Second, Banco de la Vivienda de Puerto Rico (the Housing Bank), a Commonwealth agency, has historically been the primary source of affordable home financing for LMI applicants in Puerto Rico. The Housing Bank provides direct and indirect subsidized mortgage loans to individuals with a maximum income of \$42 thousand.

Loan subsidies include reduced interest rates and closing costs, low down payments and flexible requirements for personal income verification. Such subsidies make it difficult for banks to compete for LMI borrowers.

Because the above factors limited the bank's lending opportunities and contributed to the low penetration in certain LMI areas, a peer analysis was conducted to compare Banco Popular's mortgage performance in certain municipalities with other HMDA-reporting lenders within those same geographies. Overall, Banco Popular's performance was reasonable as compared with peer group performance in those municipalities where the bank had apparent weaknesses. In certain municipalities, the bank's performance was weak relative to peer group performance.

Home improvement loans represent 75 percent and 71 percent of total HMDA loan applications and approvals, respectively. Home improvement loan performance was given greater weight in the bank's overall HMDA activity rating. HMDA loan activity was analyzed on a demand-adjusted basis; however, small business loan activity was not adjusted for demand due to the absence of any information regarding the number of small business establishments located in the municipalities within each of the MSAs and non-MSAs.

Home Improvement Loans

In Puerto Rico, the overall geographic distribution of home improvement loans reflects strong demand-adjusted penetration throughout the delineation. The bank's overall level of loan applications and approvals in LMI census tracts exceeded the level in non-LMI census tracts. However, results varied by MSAs, or municipalities within MSAs, showing varying degrees of strengths or weaknesses in LMI census tracts.

Excellent home improvement approval and application activity was noted in MSA 7440 (San Juan, PR) and MSA 0470 (Arecibo, PR), where the loan penetration rates in LMI geographies exceeded those in non-LMI geographies. Good penetration levels were identified in MSA 1310 (Caguas, PR) and MSA 4840 (Mayaguez, PR), where loan approvals and applications were similar at the MSA and non-MSA level in both LMI census tracts and non-LMI census tracts; however, weaknesses were noted in MSA 6360 (Ponce, PR) and MSA 0060 (Aguadilla, PR)

Mortgage Lending

On a demand-adjusted basis, the overall geographic distribution of home purchase and refinance loans reflects satisfactory penetration throughout the delineation. The overall penetration levels of loan applications and approvals were similar in both LMI geographies and non-LMI geographies. However, on an MSA-by-MSA basis, the results varied considerably by MSA or municipality within an MSA, showing varying degrees of strengths or weaknesses in LMI areas.

In MSA 0470 (Arecibo, PR) strong penetration was indicated, since demand-adjusted approval activity in LMI census tracts exceeded that in non-LMI census tracts. Reasonable mortgage approval and application penetration was noted in MSA 7440 (San Juan, PR) and MSA 1310 (Caguas, PR). In these MSAs, the bank's demand-adjusted application and approval penetration levels were slightly greater in non-LMI census tracts than in LMI census tracts. However, weak demand-adjusted application and approval penetration in LMI census tracts was noted in the following municipalities of MSA 7440 (San Juan, PR): Canovanas, Fajardo, Humacao, Catano and Dorado. The bank's performance in MSA 4840 (Mayaguez, PR) and the non-MSAs is considered reasonable as compared with that of its peer group. Weak application and approval penetration in LMI census tracts was noted in MSA 6360 (Ponce, PR) and MSA 0060 (Aguadilla, PR).

Small Business Lending

The bank is the leading small business lender in Puerto Rico. The overall geographic distribution of small business loans in Puerto Rico is considered strong. The bank's volume of 25,858 small business originations is outstanding and the loans are well distributed throughout Puerto Rico. Fifty-six percent of the small business loans were originated in the San Juan MSA, which contains more than half of Puerto Rico's total census tracts and the majority (68.2 percent) of the total LMI census tracts. The bank either maintained or increased its penetration in each MSA since the previous examination. Strong loan volume increases were noted in MSA 7440 (San Juan, PR) and MSA 0060 (Aguadilla, PR), and in the non-MSAs. These portions of the bank's delineated community contain 71 percent of Puerto Rico's total population. Loan volumes in the balance of the MSAs have remained the same since the previous examination.

As a result of the fact that there was no information available on either the number of business establishments or their distribution by census tract, small business performance was measured by loan volume and loan distribution by MSA. Loan volumes within each MSA were compared with population and tract demographic data as well as the bank's branch presence within each MSA. Comparisons of monthly loan volumes were based on actual figures for both examination periods. Overall, the bank has increased its small business

loans by 141 loans per month since the previous examination.

Small Farm Loans

The bank's record of providing small farm credits is reasonable. Geographically, loans were primarily originated in the rural areas containing farmlands in MSA 7440 (San Juan), MSA 0470 (Arecibo), and the non-MSAs. The non-MSAs, which are primarily rural, received the largest number of loans (357), or 38.3 percent of the total of 932 loans. The bank's volume in this category has decreased slightly since the previous examination. The decrease in volume is attributed partially to the availability of the bank's business line of credit (AFlexicuenta@) for small farms. Flexicuenta accounts are reported in the general category of small business and are not reported separately.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

As noted in the section, ADescription of the Institution's Operations in Puerto Rico,@as of March 31, 1997, Banco Popular maintained 177 full service branches in Puerto Rico, 13 limited service facilities, including automobile and mortgage loan centers, and 123 ATMs.

Thirty-seven, or 21 percent, of the full service branches were located in LMI census tracts. Exhibit B-3, on pages BB 58-59, indicates the number of branches by municipality and MSA.

During the examination period, August 1, 1995 through March 31, 1997, Banco popular opened 14 full service branches in Puerto Rico and closed or consolidated 3 branches, for a net gain of 11 branches, thus increasing the total from 166 at the start of the period to 177 at the end. Three of the 14 branches opened are in LMI geographies. The three branch closings or consolidations occurred in upper-income geographies.

Banco Popular has a satisfactory branch closing policy, which conforms to the Joint Interagency Policy Statement Regarding Branch Closings. In the evaluation process, the bank considers profitability, impact on the community, availability of services, and cost of continuing operations. The bank provides timely advance notification to this Reserve Bank and affected customers of decisions to close, consolidate, or relocate a branch office. When a branch is closed, relocated, or consolidated, the bank transfers customer accounts to a nearby or surviving branch, and information concerning the transfer is included with the advance customer notice. Completed branch closings and consolidations were consistent

with the bank's policy.

III. TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or farm loans within its community, or the purchase of such loans originated in its community.

Banco Popular offers a broad range of lending products to help meet the credit needs of its delineated community, including LMI areas. The bank's real estate lending products include residential mortgages, refinancings, reverse mortgages, home improvement loans and construction loans. In addition to real estate lending, the bank also offers personal, small business, agricultural and commercial loans.

Mortgage Lending

Banco Popular has three business units that provide residential mortgage loans. Loans are available through the mortgage department of Banco Popular, and through two bank subsidiaries, Popular Home Mortgage, Inc. (APopular Home Mortgage®), and Popular Finance, Inc. (APopular Finance®). In addition to conventional residential loan products, the various business units offer several government-guaranteed affordable mortgage loan products with flexible underwriting criteria to meet the needs of LMI borrowers. These products under Assessment Factor J, are described beginning on page BB 25. In addition, Popular Home Mortgage offers the Fannie Mae Act 87 Mortgage Program, designed to assist LMI borrowers. Through this program, Fannie Mae insures the mortgage loans of borrowers designated as LMI at no charge to the customer.

The bank's mortgage department originates conventional and government-guaranteed mortgage loans for the purchase and refinance of residential one-to-four-family residences, condominiums, multifamily units and second homes. Residential construction loans are also originated by the mortgage department. Loans for the improvement or purchase of property originated by Popular Finance are designed for borrowers interested in smaller loan amounts, as well as for those unable to qualify for conventional products. Loan amounts range from \$5 thousand to \$40 thousand, and loan terms range from 5 years to 30 years.

Other Consumer Lending

In addition to mortgage loans, Banco Popular offers various consumer credit products tailored to help meet the credit needs of its delineated community. The bank offers two

innovative home improvement products through hardware stores. The first such product is Banca del Ferretero (Hardware Banking), involving loans extended by the bank directly through neighborhood hardware stores. Applicants apply through participating stores for loan amounts ranging from \$2 thousand to \$25 thousand. This product not only promotes home improvements for those who might not otherwise apply for a loan, but also supports neighborhood businesses throughout Puerto Rico. As of March 31, 1997, 16 hardware stores participated in this program. The bank's portfolio consists of 20 such loans totaling \$103 thousand. The second such product involves indirect loans through neighborhood hardware stores for the purchase of materials for home construction. As of March 31, 1997, 15 hardware stores participated in this program. The bank's portfolio consists of 1,324 indirect hardware loans totaling \$13.7 million.

Through Popular Finance the bank offers unsecured personal loans in amounts that range from \$150 to \$3,000, with terms from 6 months to 60 months. The underwriting criteria for this product are more flexible than for conventional personal loans; however, the interest rate is 22 percent, to reflect the associated risk.

Small Business Lending

Banco Popular offers a variety of both guaranteed and non-guaranteed small business loans to individuals, partnerships or corporations with business revenues of \$1 million or less. Small business loans are available at the bank's branches and at the bank's Regional Business Centers. Generally, branches originate small business loans of up to \$250 thousand. Small business loans originated at the branches represent about 90 percent of all the small business loans originated by the bank. Small business loans greater than \$250 thousand are originated at the Regional Business Centers.

Deserving of particular mention is a loan product enhanced and reintroduced by the bank in September 1996 called Flexicuenta. Flexicuenta combines a commercial checking account with an optional line of credit ranging from \$10 thousand to \$250 thousand, and allows electronic access to other financial services. A study performed by the bank's marketing department indicated that this product would help meet the small business credit needs of the delineated community. By May 1997, the bank had opened 8,592 new Flexicuenta

accounts, of which 7,601 or 88 percent include the optional line of credit feature.

Small Farm Lending

To help meet small farm credit needs in its delineated area, the bank offers secured and unsecured loans to small farmers with revenues of \$1 million or less. Most of these loans are granted to small dairy farms. Small farm loans are offered on the same basis as small business loans, through the bank's branches and Regional Business Centers.

The Flexicuenta account discussed above is available to small farmers. All product options offered to small business owners are available to small farmers; however, the credit line repayment policy has been altered for farm loans, reflecting the seasonality of the farming business.

Assessment Factor J - The institutions' participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Banco Popular actively participates in government-insured housing, small business, and small farm loan programs throughout its delineation, including LMI areas. Through the bank's mortgage department and Popular Home Mortgage, Banco Popular originates housing loans through the FHA, the VA, and Rural Development programs of the United States Department of Agriculture (ARD®). In addition, the bank originated mortgage loans through a recently-developed Section 124 Program through a subsidiary of the Housing Bank. Popular lends to small businesses in conjunction with the SBA and offers loans secured by Banco de Desarrollo Economico de Puerto Rico (AEconomic Development Bank®) and Cuerpo de Voluntarios (AVolunteer Corps®).

Real Estate Mortgage Programs

FHA Loans

To help meet the needs of applicants in the bank's delineated community who are ineligible for conventional mortgage loans, Banco Popular offers regular and reverse mortgage loans guaranteed by the FHA. These loans have more flexible lending criteria than those of conventional products, with more flexible debt-to-income thresholds. The bank also offers FHA reverse mortgage loans, sometimes known as a home equity conversion mortgage loans. The reverse mortgage loan allows customers who are 62 years of age or older to supplement their retirement income with loans secured by their equity in their homes.

In addition to the FHA loans described above, Banco Popular was recently approved by the

United States Department of Housing and Urban Development (AHUD@) to originate FHA Section 203(k) loans. This fixed-rate loan product provides for the acquisition and rehabilitation of single- and multifamily properties and condominiums.

VA Loans

Banco Popular originates fixed rate loans guaranteed by the VA to eligible veterans, reservists, and active military personnel. These loans have more flexible standards than those of conventional products. The loan-to-value ratio can be up to 100 percent, thus allowing for low down payment requirements to eligible borrowers. Debt-to-income thresholds are also more flexible than those of conventional products. Loan terms range from 15 years to 30 years, and the maximum loan amount is \$203,000 with a guarantor.

Rural Development Loans

Banco Popular originates RD-guaranteed loans for the purchase of a completed dwelling and related facilities that serve as the individual's primary residence. This product is offered in municipalities within Puerto Rico that qualify as rural areas under RD guidelines.

Section 124 Loans

Banco Popular makes mortgage loans available through the Section 124 Program of a subsidiary of the Housing Bank. This program provides financing for the construction and purchase of affordable housing units. The Housing Bank subsidizes the down payment costs and provides below-market rates.

Small Business and Small Farm Programs

SBA Loans

The SBA has designated Banco Popular as a preferred and certified SBA lender. The bank participates in the SBA 7 (a) and Low Doc Programs. The 7(a) Program is SBA's primary credit product and allows borrowers to use loan funds for a variety of business purposes. These loans generally do not exceed \$750 thousand. The Low Doc program is targeted primarily toward borrowers with strong credit histories, start-up businesses, and small businesses with annual sales below \$5 million and fewer than 100 employees. The

maximum loan amount is \$100 thousand. For both programs, the SBA guarantees up to 80 percent of the loan.

The bank also originates loans under and the SBA 504 program through its participation in a certified development company, a local public/private partnership certified by the SBA to provide 504 financing to local small companies. This program is targeted primarily to satisfy the long-term financing needs of small businesses that are generally unable to tap into the long-term capital market. For each \$35 thousand of 504 funds borrowed, one full-time permanent private job is retained or created, or there is an alternative explicit economic impact on the local economy.

Economic Development Bank Guaranteed Loans

Banco Popular offers small business loans guaranteed by the Economic Development Bank through a program for small businesses and a targeted initiative for women-owned small businesses. The maximum loan amount is \$1.5 million. Through the program for women-owned businesses, borrowers can receive up to \$350 thousand to start a new business or to strengthen an existing enterprise. Loans up to seven years, with financing up to 90 percent of owner's equity, are available.

Volunteer Corps Guaranteed Loans

The bank also offers small business loans guaranteed by the Volunteer Corps, an organization that offers training and technical support to micro-businesses. The maximum loan amount is \$10 thousand.

Rural Development Loans

Banco Popular originates RD-guaranteed small farm loans. These crop and livestock loans are offered in municipalities within Puerto Rico that qualify as rural areas under RD guidelines.

Exhibit B-7 on page BB 63 reflects the bank's volume of government-subsidized loan programs.

METROPOLITAN STATISTICAL AREA AND NON-METROPOLITAN STATISTICAL AREA ANALYSES

Additional details regarding the bank's performance under Performance Categories I, Community Development, and II, Geographic Distribution at the MSA and non-MSA level follow:

MSA 7440 (SAN JUAN, PR)

Overall, performance in MSA 7440 is considered outstanding. Community development in this MSA totals \$49 million and represents 65 percent of all community development activity in Puerto Rico. Home improvement loan penetration was strong, with loan activity in LMI census tracts exceeding the activity in non-LMI tracts. Mortgage and refinance loan penetration was reasonable. Small business loan volume in this MSA was outstanding, with 14,403 loans representing almost 56 percent of the total small business loans in Puerto Rico. Of the total of 177 full service branches in Puerto Rico, 103 (58 percent) are located in this MSA.

Fifty-two percent of Puerto Rico's population resides in the San Juan MSA, which also contains the highest concentration of population in LMI areas in Puerto Rico. Of the 789 thousand persons in Puerto Rico living in LMI census tracts or BNAs, 573 thousand or 73 percent reside in MSA 7440. This MSA also contains the largest number of owner-occupied housing units in LMI areas, with 112 thousand or 73 percent of the 154 thousand owner-occupied housing units in the LMI areas of Puerto Rico. The MSA has a labor force of some 652 thousand, which represents approximately 37 percent of total employment on the island.

I. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Banco Popular strongly promotes community development in the San Juan metropolitan area, with a total commitment of \$49 million during the examination period, the highest in any area of the bank's delineation. All community development activity in this MSA was in the form of direct loans and investments. Economic development activity of \$21.4 million accounted for 44 percent of the overall activity within this MSA. The largest loan was \$14.8 million to the municipality of Bayamon for an industrial revitalization project. Affordable housing activity, which totaled \$27.3 million, represented 56 percent of overall activity within this MSA and provided for the construction or rehabilitation of 329 affordable housing units in the San Juan MSA. A portion of the affordable housing activity consisted of affordable housing investments, which totaled \$13.2 million, and were composed of government-guaranteed mortgage loan pools insured by the Housing Bank.

Although no individual housing unit count is available, the mortgage loans which back the securities are for the construction or acquisition of low-cost residential dwellings. Community service activity

totaled \$397 thousand, and accounted for less than 1 percent of overall activity. In addition, Banco Popular extended a \$19 million standby letter of credit to promote economic development. See Exhibit B-8, page BB 64.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

HOME IMPROVEMENT ACTIVITY

The overall geographic distribution of home improvement activities in MSA 7440 reflects excellent penetration. On a demand adjusted basis, home improvement applications and approvals were stronger in LMI census tracts than in non-LMI census tracts. Strong loan penetration in LMI census tracts was noted in the municipalities of San Juan, Corozal, Toa Alta, Humacao, Loiza, Vega Alta, Juncos, Luquillo, Yabucoa, Guaynabo, Catano and Bayamon. Reasonable loan penetration was found in 14 of the remaining 18 municipalities. The four municipalities that exhibited weak loan penetration were Fajardo, Barceloneta, Rio Grande and Carolina. The Carolina municipality contains only 883 owner-occupied housing units in LMI tracts, which provides limited lending opportunities.

MORTGAGE ACTIVITY

The overall geographic distribution of home purchase and refinance activities in MSA 7440 is satisfactory. On a demand-adjusted basis, mortgage applications and approvals were only slightly stronger in non-LMI census tracts than in LMI census tracts. Performance varied among the various municipalities in the MSA; however, 85 percent of the LMI owner-occupied housing units in this MSA exist in municipalities that are rated as having strong or reasonable loan penetration.

Strong demand-adjusted loan penetration was noted in the municipalities of Barceloneta, Manati, Toa Alta, Naguabo, and Vega Alta. Reasonable LMI loan penetration was evident in the municipalities of San Juan, Yabucoa, Corozal, Loiza, Bayamon and Juncos. On the basis of a performance analysis and a peer group comparison, Banco Popular's performance was concluded to be reasonable in 8 of the remaining 13 municipalities. The five municipalities reflecting weak penetration after peer group comparisons were Canovanas, Fajardo, Humacao, Catano and Dorado. These five municipalities contain less than 15

percent of all of the owner-occupied housing units located in the MSA's LMI census tracts. It should be noted that the bank does not have any branches in the municipality of Catano.

SMALL BUSINESS ACTIVITY

Small business lending in this MSA is considered outstanding. The monthly volume of small business lending in the San Juan MSA averaged 654 loans per month, which is an increase of 94 loans per month since the previous examination. The outstanding volume of 14,403 loans made in this MSA represents 56 percent of the total small business loans originated during the examination period. The bank also originated 152 small farm loans in this MSA.

MSA 6360 (PONCE, PR)

Banco Popular's performance in MSA 6360 was weak. Community development activity totaled \$1.8 million. While small business lending was strong, weaknesses were noted in both home improvement and mortgage lending in this MSA.

MSA 6360 is the second most populous MSA in Puerto Rico, containing 9.8 percent of the total population and 8 percent of the population residing in LMI geographies. It also contains 9 percent of the total LMI census tracts in Puerto Rico. Approximately 7 percent of owner-occupied housing units in LMI census tracts are in MSA 6360. Community contacts noted that single-family housing construction in Ponce is costly and many low-income households cannot afford the units. The bank's business presence in this MSA consists of 14 branches, or 8 percent of the bank's branches in Puerto Rico.

There are six municipalities in MSA 6360; however Ponce, the second largest city in Puerto Rico, contains the largest concentration of population. Most LMI lending opportunities are found in the Ponce municipality, which contains almost 50 percent of the total owner-occupied housing units and 70 percent of the housing units located in LMI census tracts.

I. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Community development activity in MSA 6360 totaled \$1.8 million, and represented approximately 2 percent of the bank's overall community development activity in Puerto Rico. A \$677 thousand affordable housing qualified investment and a loan for \$600 thousand to a community service organization represent most of the activity in the MSA.

Affordable housing represents 52 percent of total activity in the MSA, and community services represent 48 percent. Community development grants to nonprofit organizations totaled \$227 thousand. See Exhibit B-9, page BB 65.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

HOME IMPROVEMENT ACTIVITY

The overall geographic distribution of home improvement activities in MSA 6360 reflects weak penetration, based primarily on performance in the Ponce municipality. Overall, on a demand-adjusted basis, home improvement application and approval activity was stronger in non-LMI census tracts than in LMI census tracts. Strong loan penetration in LMI census

tracts was noted in the municipalities of Villalba and Juana Diaz. However, loan approvals in the municipality of Ponce, which contains approximately 70 percent of the LMI owner-occupied housing units, were two times greater in non-LMI census tracts than in LMI census tracts.

MORTGAGE ACTIVITY

Overall, the geographic distribution of home purchase and refinance activities in MSA 6360 is weak. This rating is based primarily on the bank's performance in the Ponce municipality, which provides the majority of LMI lending opportunities. On a demand-adjusted basis, lending in Ponce's non-LMI census tracts was more than two times greater than lending in LMI census tracts.

SMALL BUSINESS ACTIVITY

Small business lending in the Ponce MSA is considered strong. The bank has maintained an outstanding volume of small business loan originations since the previous examination. The monthly volume of small business lending averaged 94 loans per month, as compared with the average of 95 loans per month at the previous examination. The 2,065 loans made in this MSA represent 8 percent of the bank's total small business loans in Puerto Rico. In addition to the small business activity, the bank also originated 57 small farm loans in this MSA.

MSA 1310 (CAGUAS, PR)

Overall performance in MSA 1310 was strong. Home improvement and small business lending were strong, and mortgage lending was considered reasonable.

In terms of population, the Caguas MSA is the third largest MSA on Puerto Rico, and has a total population of 280 thousand. MSA 1310 contains 8 percent of the total population in Puerto Rico, with 8 percent of the population residing in LMI census tracts. There are approximately 12 thousand owner-occupied housing units in the LMI census tracts of the MSA, about 8 percent of all such housing units in Puerto Rico. Because of its close proximity to San Juan, this MSA has developed a strong commercial center. In March 1997, the unemployment rate was 11.5 percent. Popular has 11 branches in MSA 1310, which represents about 6 percent of all the bank's full service branches on Puerto Rico.

I. COMMUNITY DEVELOPMENT

Assessment Factor H- The institution's participation, including investments, in local community development and redevelopment projects or programs.

Community development activity in MSA 1310 totaled \$701 thousand and represents less than 1 percent of the bank's overall community development activity in Puerto Rico. Ninety-one percent of activity, or \$635 thousand, is a qualified affordable housing investment in government-guaranteed residential mortgage loans insured by the Housing Bank. Banco Popular also extended one community development loan for \$45 thousand to a nonprofit corporation of small farmers in the Rabanal Community located in Cidra, to promote economic development. Community development donations totaled \$21 thousand, of which \$20 thousand was for affordable housing initiatives. See Exhibit B-10, page BB 66.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

HOME IMPROVEMENT ACTIVITY

The overall geographic distribution of home improvement activity in MSA 1310 is considered to be strong. On a demand-adjusted basis, loan applications and approvals were greater in LMI census tracts than in non-LMI census tracts. Weak demand-adjusted loan penetration was identified in the municipality of Gurabo; however, this performance was mitigated by the small number of owner-occupied housing units (704) located in LMI tracts, thus providing limited lending opportunities.

MORTGAGE ACTIVITY

Overall, the geographic distribution of home purchase and refinance activities in MSA 1310 reflects reasonable penetration. On a demand-adjusted basis, mortgage applications and approvals from non-LMI census tracts were only 1.2 times stronger than applications and approvals from LMI census tracts. Strong mortgage loan penetration in LMI census tracts was noted in the municipalities of Cayey and Cidra, where approval activity was stronger in LMI census tracts than in non-LMI census tracts. The weak demand-adjusted loan activity in the municipality of Caguas is mitigated by the fact that Banco Popular outperformed its peer lenders in this municipality.

SMALL BUSINESS ACTIVITY

Small business lending in MSA 1310 is considered strong. The monthly volume of small business lending in the Caguas MSA averaged 67 loans per month, which is equal to the average at the previous examination. The 1,469 loans made in this MSA represent 6 percent of the total small business loans. The bank also extended 26 small farm loans in the Caguas MSA.

MSA 4840 (MAYAGUEZ, PR)

Performance in the Mayaguez MSA was reasonable. Community development activity totaled \$259 thousand. Home improvement loan activity was equally distributed between LMI and non-LMI geographies, while small business lending reflected strong performance. Mortgage and refinance lending was reasonable.

MSA 4840 contains 6.7 percent of the total population, with 4 percent of the population residing within LMI tracts, and 6 percent of the total LMI census tracts in Puerto Rico. There are approximately 7 thousand owner-occupied housing units in the LMI census tracts of the MSA, representing 4 percent of the total of such units in Puerto Rico. In May 1995, the unemployment rate in MSA 4840 was 14.3 percent. Banco Popular operates 11 branches in the MSA, which represents about 6 percent of its total branch network on Puerto Rico.

I. COMMUNITY DEVELOPMENT

Assessment Factor H- The institution-s participation, including investments, in local community development and redevelopment projects or programs.

Banco Popular-s community development activity in MSA 4840 totaled \$259 thousand, which is less than 1 percent of the bank-s overall community development activity. Activity was concentrated in community services, with the bank extending five working capital loans to social service organizations. A qualified affordable housing investment totaled \$64 thousand. Donations to nonprofit community service agencies totaled \$16 thousand. See Exhibit B-11, page BB 67.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution-s credit extensions, credit applications, and credit denials.

HOME IMPROVEMENT ACTIVITY

The bank-s geographic distribution of home improvement activity in MSA 4840 is considered reasonable. On a demand-adjusted basis, application and approval activity was stronger in non-LMI census tracts than in LMI census tracts. Strong demand-adjusted loan activity was noted in the municipality of Sabana Grande, where application and approval activities were more than two times greater in LMI census tracts than in non-LMI census tracts.

MORTGAGE ACTIVITY

The bank-s overall record of providing home purchase and refinance loans is reasonable,

based on Banco Popular's performance in the municipalities of Cabo Rojo and Mayaguez. These two municipalities account for over 60 percent of the total owner-occupied housing units in LMI census tracts. Overall, demand-adjusted loan applications and approvals were stronger in non-LMI census tracts than in LMI census tracts, primarily as a result of weak performance in the municipalities of Mayaguez, Sabana Grande and San German. However, peer group analysis indicated that Banco Popular outperformed all other lenders in the Mayaguez municipality, which contains 28 percent of owner-occupied housing units in LMI census tracts within the MSA. In the San German municipality, however, peer analysis confirmed the bank's weak performance.

SMALL BUSINESS ACTIVITY

Small business lending in MSA 4840 is considered strong. The volume of small business lending in this MSA averaged 68 loans per month, as compared with an average of 62 loans per month at the previous examination. The 1,507 loans made in this MSA represent 5.8 percent of the bank's total small business loans in Puerto Rico. In addition to the small business loans, Banco Popular originated 20 small farm loans in the Mayaguez MSA.

MSA 0470 (ARECIBO, PR)

Overall performance in the Arecibo MSA is considered strong. The bank exhibited strong loan penetration in both home improvement and mortgage lending, with activity in the LMI tracts exceeding that of the non-LMI tracts by 1.6 times. Small business lending in this MSA was strong.

MSA 0470 contains 4.5 percent of the total population, with 2 percent of the population residing within LMI tracts, and 3 percent of the total LMI census tracts in Puerto Rico. There are seven branches located in this MSA, or 4 percent of the total branches in Puerto Rico. There are 3,000 owner-occupied housing units in LMI census tracts.

All LMI census tracts in the MSA are found in the municipality of Arecibo. Since the municipalities of Camuy and Hatillo contain no LMI tracts, activity there was not material to the analysis.

I. COMMUNITY DEVELOPMENT

Assessment Factor H- The institution-s participation, including investments, in local community development and redevelopment projects or programs.

Community development activity in MSA 0470 totaled \$452 thousand and represented less than 1 percent of the bank-s overall community development activity. A qualified affordable housing investment totaling \$339 thousand represented 73 percent of all activity in the MSA. In addition, the bank extended a \$100 thousand economic development loan to a job training institute assisting handicapped persons. The remaining \$11 thousand was extended to an organization involved in AIDS care. A \$2,000 dollar donation was made to an affordable housing agency in this MSA. See Exhibit B-12, page BB 68.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution-s credit extensions, credit applications, and credit denials.

HOME IMPROVEMENT ACTIVITY

The overall geographic distribution of home improvement activities in MSA 0470 reflects excellent penetration. On a demand-adjusted basis, home improvement applications were 1.7 times greater in LMI census tracts than in non-LMI census tracts. Approvals were 1.6 times greater in LMI census tracts than in non-LMI census tracts. The strong loan penetration in LMI census tracts is attributed to the lending in the Arecibo Municipality, which contains all of the owner-occupied units located in LMI census tracts in this MSA.

MORTGAGE ACTIVITY

The bank's performance with regard to the geographic distribution of purchase and refinance mortgage activity was strong. Demand-adjusted mortgage applications and approvals were 1.6 times stronger in LMI census tracts than in non-LMI census tracts. As noted above, the strong loan penetration is the result of the bank's performance in the Arecibo Municipality.

SMALL BUSINESS ACTIVITY

The bank's record of small business lending in MSA 0470 is considered strong. The volume of small business lending in this MSA averaged 49 loans per month, a slight decrease from the average of 54 loans per month at the previous examination. The 1,084 loans originated in this MSA represented 4.2 percent of the bank's total small business loan originations. The bank also made 285 small farm loans in this MSA, which is primarily rural and appears to offer most of such lending opportunities outside of the predominately rural non-MSA areas.

MSA 0060 (AGUADILLA)

Overall performance in the Aguadilla MSA was weak. Home improvement and mortgage loan penetration rates were weak, while small business loan penetration was strong.

MSA 0060 contains 3.6 percent of the total population, 1 percent of the population residing within LMI tracts, and 2 percent of the total LMI census tracts in Puerto Rico. All of the 1,805 owner-occupied housing units in this MSA are located in the Aguadilla municipality. Because there are no LMI census tracts in Aguada or Moca, activity there was not considered material to the analysis. The bank has six retail branches located in this MSA, or 3 percent of the total branches in Puerto Rico.

I. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Community development activity in MSA 0060 totaled \$1.4 million, and represented 1.9 percent of total community development activity on Puerto Rico. All activity supported affordable housing projects; the primary initiative was a \$1.3 million loan to a developer for the construction of 35 affordable housing units. See Exhibit B-13, page BB 69.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

HOME IMPROVEMENT ACTIVITY

The overall geographic distribution of home improvement activities in MSA 6000 reflects weak penetration. This rating is based on the bank's weak performance in the Aguadilla municipality, which contains all of the LMI owner-occupied housing units in this MSA.

On a demand-adjusted basis, home improvement applications were 1.8 times stronger in non-LMI census tracts than in LMI census tracts. Home improvement loan approvals were 1.6 times stronger in non-LMI census tracts than in LMI census tracts. The peer group analysis confirmed Banco Popular's weak performance in this MSA.

MORTGAGE ACTIVITY

On a demand-adjusted basis, the bank's purchase and refinance mortgage activity was weak, primarily as a result of performance in the municipality of Aguadilla. Mortgage loan applications were 2.6 times stronger and approvals 2.5 times stronger in non-LMI census

tracts than in LMI census tracts. The bank had low volumes of application and approval activity in this MSA.

SMALL BUSINESS ACTIVITY

The bank's record of small business lending in MSA 0060 is considered outstanding. The volume of small business lending in this MSA averaged 66 loans per month, as compared with the average of 53 loans per month at the previous examination. The 1,454 loans originated in this MSA represented 5.6 percent of the bank's total small business loan originations. Small farm loans in this MSA totaled 35.

NON- MSAs

Banco Popular's performance in the non-MSA portions of the island was strong. The bank had strong small business loan penetration and reasonable home improvement loan penetration rates, but weak mortgage loan activity.

The non-MSA portion of Puerto Rico consists of 25 municipalities, 7 of which contain LMI geographies. The total population in all 25 municipalities is approximately 543 thousand, or 15 percent of the total population in Puerto Rico. There are approximately 32 thousand persons living in LMI areas, representing about 4 percent of the total population in Puerto Rico that reside in those geographies. The non-MSAs contain 5.5 percent of the total LMI census tracts in Puerto Rico. The bank's business presence in the non-MSAs consists of 25 branches, or 14 percent of the total branches in Puerto Rico. As noted before, 18 of the 25 municipalities contain no LMI census tracts; therefore, these municipalities were not considered material to the demand-adjusted lending analysis because of the lack of lending opportunities in LMI areas.

I. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Community development activity totaled \$8.2 million in the non-MSAs of Puerto Rico, and represented about 10 percent of the bank's overall community development in Puerto Rico. Ninety-three percent of activity was directed toward affordable housing, resulting in the construction of 440 affordable housing units. Economic development activity consisted of a \$150 thousand line of credit to a non profit organization in Coamo. Community service activity totaled \$380 thousand in loans extended to social service organizations assisting children and providing health care to low-income individuals. Donations to nonprofit community service organizations totaled \$16 thousand. See Exhibit B-14, page BB 70.

II. GEOGRAPHIC DISTRIBUTION

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

HOME IMPROVEMENT ACTIVITY

The overall geographic distribution of home improvement activity in the non-MSAs of Puerto Rico is reasonable. On a demand-adjusted basis, home improvement applications and approvals were stronger in LMI census tracts than in non-LMI census tracts.

MORTGAGE ACTIVITY

The overall geographic distribution of home purchase and refinance activities in the non-MSAs is weak. On a demand-adjusted basis, mortgage applications and approvals were 2.5 times stronger in non-LMI census tracts than in LMI census tracts. Although the non-MSAs provide limited lending opportunities, the bank had low volumes of activity, with only 10 applications and 7 approvals throughout these geographies.

SMALL BUSINESS ACTIVITY

The bank's record of small business lending in the non-MSAs is considered outstanding. The volume of small business lending in the non-MSAs averaged 176 loans per month, as compared with the average of 144 loans per month at the previous examination. The 3,876 loans originated in the non-MSAs represent 15 percent of the bank's total small business loan originations. The bank also originated a total of 357 small farm loans in the non-MSAs.

CONCLUSIONS WITH RESPECT TO ASSESSMENT FACTORS AND CRITERIA THAT PERTAIN SOLELY TO THE CRA PROCESS, DEMOGRAPHICS, AND ECONOMIC FACTORS:

ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit need of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Banco Popular's ascertainment activities are effective in identifying the credit needs of its communities. The CRA Officer is responsible for administering the bank's CRA program and for the ascertainment of community needs. Ascertainment efforts are carried out primarily through board and senior management activities and employee contacts, and participation in seminars, as well as educational programs and marketing studies.

Board members and senior management are actively involved in ascertaining the credit needs of the bank's delineated community through ongoing and meaningful contacts with a variety of government officials and community leaders, and involvement with financial groups and community-based organizations, and community boards. This participation facilitates the exchange of information between bank management and representatives of the community. Board members and executives are involved with such housing, economic development and social service organizations as the following: Concilio de Corporaciones en Desarrollo Comunitario; Fundacion de Puerto Rico; Habitat for Humanity of Puerto Rico; Instituto de Servicios Comunales; National Urban Fellows; Neighborhood Housing Services of Carolina and Ponce; PRODUCIR; Servicios Sociales Episcopales; and Congregacion Mita. Many nonprofit organizations, such as the Ana G. Mendez Educational System, which promotes alternatives available for low-income students, Consumer Credit Counseling Services, an organization which provides counseling sessions concerning the reverse mortgage product, the establishment of debt management plans, and credit and budget management education programs, the Puerto Rico Community Foundation, the Greater San Juan Committee and the San Juan Neighborhood Housing Services benefit from the expertise and technical assistance provided by senior bank representatives. Senior bank representatives often take a leadership role in organizing and coordinating community initiatives, for example, with the Puerto Rico Housing Network. The Puerto Rico Housing Network is an island-wide nonprofit group consisting of members from the nonprofit, financial, government, legal, development, and construction sectors and serves as an intermediary for a variety of housing-related activities, such as improving methods for meeting and increasing public awareness of housing needs.

Regional managers, branch managers and lending officers are actively involved in ascertaining the credit needs of the bank's delineated community during the course of daily business activities and contacts. Through networking and customer contact, these individuals become aware of the

types of credit needed by businesses and consumers. In addition, bank employees hold numerous positions in community groups and organizations through which they gain insight into the needs of the bank's delineated community, including those of LMI areas. For example, employees participate in such organizations as the Greater San Juan Committee, a nonprofit organization engaged in infrastructure development and public welfare issues for the San Juan municipality, Voluntarios Casa de Ninos Manuel Fernandez Juncos, a nonprofit organization geared toward improving the welfare of displaced children, La Fondita de Jesus, a homeless housing facility, Private Industry Councils in several municipalities across the island and local chapters of the Neighborhood Housing Services. There is regular communication between employees and the CRA Officer to coordinate the identification of credit needs.

Banco Popular also ascertains community credit needs and communicates information about its credit services through various seminars, as well as by participating in a variety of technical assistance and managerial training programs, informational sessions, and community-related projects, several in conjunction with the SBA. These programs provide the bank with feedback from the community about specific bank products and unmet credit needs.

Since the previous examination, the bank's marketing department conducted 14 primary studies to identify financial needs in Banco Popular's delineated community, either by analyzing the efficiency of a product in satisfying customer needs or by assessing the needs and financial behaviors of a particular demographic group. The bank administered attitudinal and needs assessment studies concerning electronic delivery systems, consumer deposit account products, commercial credit products, and teenage electronic transaction accounts. In addition, the bank assessed the behaviors and credit needs of public assistance recipients, affluent individuals, and unbanked individuals without transaction account banking relationships. This work resulted in changes to the Flexicuenta product, a commercial checking account and credit line for small businesses, discussed on page BB 25, and Acceso 24, an electronic banking service for individuals without a transaction account relationship, as discussed on page BB 54.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Banco Popular's board of directors is effectively involved in the formation, implementation and oversight of CRA policy. The board has developed an effective structure for the development, implementation and review of the bank's CRA initiatives. The board meets its regulatory responsibility by reviewing CRA examination reports from federal regulatory agencies; inspecting and approving the CRA Committee minutes and the annual strategic plan; and approving branch opening and closing practices. Pertinent CRA issues, including regulatory changes, are discussed regularly at board meetings.

The bank's CRA Officer has primary responsibility for CRA compliance. To help ensure

adequate oversight, the board formed a CRA Committee, which meets three times per year with the CRA Officer and the bank president. The CRA Committee, which is comprised of six board members, serves as a liaison with the full board on CRA issues and updates the board with respect to both the bank's CRA activities and periodic analyses of the geographic distribution of the bank's small business and mortgage lending.

The CRA Officer meets regularly with senior management of the bank's various divisions to provide updates on CRA issues and discuss CRA activities, including ascertainment efforts. As opportunities for community involvement arise, the CRA Officer contacts the appropriate department head or regional manager to coordinate the bank's efforts and provides technical assistance, when needed.

The board's involvement in CRA activities is enhanced by the many community board positions held by board members. For example, the newly appointed CRA Committee president is a member of the Puerto Rico Community Development Consortium, a group composed of private enterprise, state and municipal government, and foundation representatives in Puerto Rico to strengthen the nonprofit organizations and to establish community development corporations. Another board member serves as a technical consultant for La Fondita de Jesus, a nonprofit organization dealing exclusively in the improvement of the lives of the homeless in San Juan.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Banco Popular has a strong marketing program which employs various advertising media to reach effectively all portions of its delineated community, including LMI areas. The bank, and its subsidiaries Popular Home Mortgage and Popular Finance, employ a variety of advertising tools to market their consumer and business products, with an emphasis on print and broadcast media. In addition, Banco Popular utilizes direct mail and seminars to facilitate awareness of both the bank and its products. In July 1996, the bank created a Web site on the Internet as a new medium for its marketing initiatives.

Market research analyses is conducted regularly both to identify consumer needs and determine the most efficient means of marketing products and services. For example, the bank conducted studies focused on individuals without transaction account banking relationships, a majority of whom are LMI individuals, in order to facilitate the development and marketing of appropriate products for this group. As a result, the bank introduced Acceso 24, a service through which participants can receive direct deposit of checks and have electronic access to funds at ATM facilities. In addition, a study conducted by the marketing department resulted in enhancements to the Flexicuenta product, a combination checking account and line of credit, directed to small businesses.

Print and Broadcast Media

Banco Popular employed primarily print media, television and radio to promote its consumer loan and deposit services. Overall, advertisements for such products appeared in 22 different newspapers and magazines, with an average circulation of 1.3 million in Puerto Rico. Advertisements were broadcast on five island-wide television channels and 29 radio stations throughout Puerto Rico. These media were also used when the bank reintroduced the Flexicuenta product, discussed above, in September 1996.

Print media included direct mail campaigns employed primarily to promote certificates of deposit, IRAs and consumer credit. Consumer credit promotions included pre-approved credit card offers and application invitations. Furthermore, branches received brochures and wall advertisements in coordination with current print, broadcast and direct mail campaigns. Popular Home Mortgage used direct mail to realtors and builders throughout Puerto Rico to promote its mortgage loan products.

Seminars and Educational Resources

Popular uses primarily seminars to promote small business loans. The bank regularly conducts informational and educational seminars on small business financing alternatives, as well as basic business and management skills. Many projects and programs were conducted in conjunction with the SBA. The bank also developed a presentation that describes its commercial product line, including small business products. In 1996 alone, 70 such presentations were conducted throughout the island. Such direct contacts enable lenders to enhance relationships with existing and potential customers. Popular Home Mortgage also participates in presentations regarding consumer real estate lending alternatives and operates promotional booths at local shopping malls.

Other Media

In July 1996, the bank established a Web site on the Internet. Through its home page, customers and potential customers can obtain information about the bank's various products and services.

Staff members also actively market the bank's products and services directly to prospective customers at the customer's place of business. These sales efforts usually focus on small businesses that have a direct need for the bank's loan products; however, sales calls are also directed to area realtors and builders to provide information on the bank's various mortgage loan products.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and

other factors.

COMMUNITY PROFILE

The demographic and statistical information used in this analysis was obtained from the 1990 Census of the United States Department of Commerce, Bureau of the Census; the Puerto Rican Housing Department; HUD's Office of Community Planning and Development; and Estudios Tecnicos, Inc., as well as from the book entitled *Island Paradox: Puerto Rico in the 1990's* by Francisco L Rivera-Batiz and Carlos E. Santiago.

Geography and Population

Popular's assessment area encompasses the entire island of Puerto Rico. Puerto Rico covers a total of 3,427 square miles and is composed of 78 municipalities separated into six MSAs and one non-MSA. The MSAs are as follows: 7440-San Juan, 6360-Ponce, 1310-Caguas, 4840- Mayaguez, 0470-Arecibo and 0060-Aguadilla. The majority of the 78 municipalities are located in these MSA areas. Twenty-five municipalities are located in non-MSAs, which are primarily in the southern and central sections of the island.

In 1952, Puerto Rico became the Commonwealth of Puerto Rico, a free state associated with the United States. Puerto Rico is neither a state of the United States nor an independent country. Puerto Ricans are not federally taxed, have no voting representatives in Congress, and do not vote in the national election. Puerto Ricans do possess U.S. citizenship and therefore move freely between the island and the mainland.

Puerto Rico had a total population of 3.5 million in 1990. Its population density of 1,069 persons per square mile is one of the highest in the world. The population in Puerto Rico is aging. According to the Puerto Rico Planning Board, 11.2 percent of the population will be over 65 by the year 2000. The overall aging of the Puerto Rican population has been influenced by decreasing birth rates and by the net migration of the younger population to the mainland United States. Between 1980 and 1990, the population in Puerto Rico grew by 10.2 percent, an increase of 325,000. This was one of the slowest periods of growth in the island's history.

Economy

The economy of Puerto Rico has been plagued by high levels of poverty, unemployment, and inflation while experiencing slow economic growth. The economy has also suffered from slow technological progress and limited investment in the country's infrastructure. However, Puerto Rico's 1997 indicators show modest income, employment, and investment growth. The economy is strongly tied to economic conditions in the United States, and strong performance in the United States economy during the first half of 1997 had a positive impact on the economy of Puerto Rico.

Total employment has increased in recent years. Employment in March 1996 reached 1.1 million and unemployment dropped to 12.8 percent, which is the lowest rate in recent years. With 30 out of every 100 people in Puerto Rico working, there is still potential in the labor force that is not being utilized. Puerto Rican workers are covered by the U.S. federal minimum wage requirements.

The largest sectors of the Puerto Rican economy are the manufacturing and service sectors. Manufacturing accounts for 55.5 percent of Gross Domestic Product (AGDP@). Important industries include pharmaceuticals, electronics, textiles, petrochemical, and processed foods. Most of the island's manufacturing output is shipped to the mainland, which provides industrial materials and semi-finished articles. The government employs 22 percent of the labor force in Puerto Rico. Tourism contributes a significant amount to the island's economy. Finance, insurance and real estate services have undergone significant growth in the past decade and account for 3 percent of the island's GDP. Agriculture accounts for 3 percent of the labor force employment in Puerto Rico and less than 1 percent of GDP. Sugar production has lost out to dairy production and other livestock products as the main source of income in the agricultural sector.

Puerto Rico generates a very high percentage of its income from manufacturing. This is directly linked to the enactment of Section 936 of the U.S. Internal Revenue Code, which provided tax incentives to U.S. corporations that established operations in Puerto Rico. As a result, many manufacturers, most notably pharmaceutical, electrical, and chemical companies, have invested heavily in the Puerto Rican economy. Changes to the tax code in May 1996 repealed Section 936 and provided for a ten-year phase-out period. Consequently, many corporations are reconsidering their operations in Puerto Rico, and this may have significant adverse effects on the manufacturing sector, as well as a rippling effect throughout the economy.

The loss of Section 936 incentives carries significant implications for banks in Puerto Rico. Section 936 required that income earned by subsidiaries in Puerto Rico be deposited in Puerto Rico for at least six months before the funds were repatriated. These funds had to be used for economic development purposes in Puerto Rico or in other countries of the Caribbean Basin. In 1992, the total of Section 936 funds deposited in Puerto Rico was \$10 billion. These funds accounted for 18.6 percent of commercial deposits in Puerto Rico in 1992. Most of these funds have been used to finance commercial loans, mortgages, and government loans. The loss of the 936 Funds has resulted in an increase in the cost of funds available to the banks for loan purposes.

Per capita personal income in Puerto Rico was \$7,296 in 1995. The highest poverty rates were observed among the oldest and youngest populations in Puerto Rico. Nearly 60 percent of Puerto Rican residents live under the U.S.- defined poverty line.

Housing

While there is an ample supply of units for middle- and upper-income families, there is a deficit of adequate affordable housing for low-income families in Puerto Rico. Housing needs in Puerto Rico arise from the existence of physically inadequate housing, crowded units, high housing costs, and housing in flood hazard areas. High unit costs result from the high cost and scarcity of available land, high cost of construction, and inadequate infrastructure in Puerto Rico. The maximum cost of government-subsidized housing in Puerto Rico is \$60 thousand. According to "Demand for Housing in Puerto Rico 1994-98" completed by Estudios Tecnicos for the Puerto Rico Bankers' Association (Estudios Techicos Housing Demand Study), there was a housing deficit of 88,751 units in Puerto Rico, as of 1990. Analyzing the demand of housing by income level, the study found that households with incomes of less than \$10,800 will not be able to satisfy their needs through housing developed in the formal market. As a result, 75.9% of all families depended on the public sector for some subsidy to acquire affordable housing. The municipalities of Carolina, Mayaguez, Ponce, Caguas, and San Juan are the areas with the greatest quantitative need for housing because these areas are the largest urban centers.

There are some public-sector initiatives and government regulations that address the housing needs problem in Puerto Rico. At the Commonwealth level, there is the Department of Housing's Nueva Vivienda program and at the municipal level there are some localities implementing Comprehensive Housing Strategies. The Nueva Vivienda program has instituted a more efficient permit process for developers, a partial tax exemption from the sale of affordable housing units, and a maximum ceiling rate of \$60 thousand for affordable housing units. In addition, there are HUD programs. Of the total of 78 municipalities, 16 are HUD entitlement areas, accounting for approximately 54% of the total population. HUD has established a 1997 strategy for the island which includes the following programs and amounts: Community Development Block Grant \$65,697,000; Housing Opportunities \$10,153,000; Housing Opportunities for People with AIDS, \$1,566,000 and Emergency Shelter Grant, \$2,488,00. In 1997, HUD was responsible for managing 57 thousand units of public housing.

A partnership among developers, banks, and the public sector is instrumental in facilitating affordable housing in Puerto Rico. This partnership can lower the cost of land to developers, provide tax deductions for developers of affordable housing, initiate improvements in infrastructure, and expedite the permit process. Housing ownership in Puerto Rico is 72.1 percent. This results from favorable tax treatment of mortgage interest expense, low-cost financing through the tax exemptions provided by the Commonwealth, and low property taxes. It is also partly the result of a strong preference for real estate as a savings mechanism. The 1990 Census information indicates that 107,212 households (15 percent) have housing costs that exceed 35 percent of income. In the rental market, 30 percent of the rented housing units are to households for whom rent payments represent over 35 percent of income.

Following is a profile of Banco Popular's delineation throughout Puerto Rico, followed by a profile of each MSA and non-MSA constituting the bank's delineated community. LMI census

tracts are those in which the median family income is less than 80 percent of the median family income for the MSA. For the municipalities not within an MSA, LMI BNAs are those in which the median family income is less than 80 percent of the median family income for the non-metropolitan area of Puerto Rico.

The bank's delineated community consists of the entire Commonwealth of Puerto Rico. There are 798 populated census tracts or block numbering areas (BNAs) in the delineation, of which 198, or 25 percent, are considered LMI geographies. The total population is approximately 3.5 million, of which 789 thousand, or 22 percent, live in LMI geographies. There are approximately 760 thousand owner-occupied housing units on Puerto Rico, of which approximately 154 thousand, or 20 percent, are in LMI geographies. See Exhibit B-15, showing tract characteristics and demographics for Puerto Rico, on page BB 71.

MSA - 7440 (SAN JUAN, PR)

The San Juan MSA is the largest MSA in Puerto Rico with 52 percent, or approximately 1.8 million, of the island's population. The MSA consists of 30 municipalities, which have a wide range of income levels. The MSA contains 412 populated census tracts, of which 135, or 33 percent, are low LMI tracts. These LMI tracts contain a population of about 573 thousand, or 31 percent of the MSA's population. MSA 7440 contains 73 percent of the island total population residing in LMI census tracts.

The 1997 HUD adjusted median family income for the MSA is \$16,600. HUD annually adjusts family income according to housing cost value for the metropolitan area and the number of family members in the household. The salaries in the San Juan MSA are the highest in Puerto Rico. According to Estudios Tecnicos, Inc. Much of the new housing constructed in Puerto Rico, even though it may not be located in the San Juan region, is for people working in the San Juan region. There are concerns regarding urban transportation and housing density. Over the last 40 years, the population of Puerto Rico has changed from mostly rural to predominantly urban. The growth in the population of Trujillo Alto and Guaynabo is the result of the increased economic activity in the city of San Juan.

Unemployment levels in this MSA were relatively low compared with those of recent years. In May, 1995, the unemployment level in the San Juan MSA was the lowest in Puerto Rico, at a level of 11 percent. The total labor force of the MSA was 652 thousand. The main employment sectors are tourism, services, and pharmaceuticals. The San Juan region accounts for 36.9 percent of total employment in Puerto Rico. See Exhibit B-16, page BB 72.

MSA - 6360 PONCE, (PR)

The Ponce MSA is the second most populous MSA, with a total population of approximately 343 thousand. Ponce, the second largest city in Puerto Rico, is located on the southern tip of the island. The MSA includes the municipalities of Ponce, Juana Diaz, Villalba, Guayanilla, Yauco, and Penueles. There are 77 populated census tracts of which 18, or 23 percent, are LMI tracts. These LMI tracts contain a population of about 65 thousand, or 19 percent of the MSA's population, and 8 percent of the island's total population residing in LMI census tracts.

The MSA's economy is based primarily on manufacturing, retail, and tourism. In May 1995 the unemployment level in the Ponce MSA reached 18.6 percent. The 1997 HUD adjusted median family income for the Ponce MSA is \$11,800. Housing problems in Ponce consist mainly of a lack of affordable housing and aging housing stock. The Estudios Tecnicos Housing Demand Study estimated that 11,938 housing units were needed in 1990 in the Ponce region. Single-family housing constructed in Ponce is extremely costly and many low-income households can not afford these units. (See Exhibit B-17, page BB 73.)

MSA 1310 (CAGUAS, PR)

The Caguas MSA has a total population of approximately 280 thousand. There are 58 populated census tracts, of which 15, or 26 percent, are LMI tracts. These LMI tracts contain a population of about 59 thousand, or 21 percent of the MSA's population. The Caguas MSA contains 7.5 percent of the island's population residing in LMI tracts.

MSA 1310 is geographically the second largest metropolitan statistical area in Puerto Rico after the San Juan MSA and includes the municipalities of San Lorenzo, Caguas, Cayey, Cidra and Gurabo. The municipality of Caguas is located at the central-east Region of the island, about 25 miles south of the city of San Juan. Because of its proximity to San Juan and good transportation network, Caguas has grown into an industrial, commercial, services and manufacturing center. As of March 1997, the average unemployment rate in the municipalities in the MSA was 11.5 percent. There is a great demand for affordable housing and rental assistance in the MSA. The lack of developed land in Cayey and San Lorenzo and the high costs of construction are the major barriers to affordable housing.

The absence of financial services in the MSA's rural areas is the most significant deterrent to affordable housing development in the region. According to the Estudios Tecnicos Housing Demand Study, the Caguas region is in need of 7,140 adequate housing units. (See Exhibit B-18, page BB 74.)

MSA 4840 (MAYAGUEZ, PR)

MSA 4840 is constituted by the municipalities of Mayaguez, Cabo Rojo, Sabana Grande, San German, Anasco, and Hormigueros. Mayaguez is the principal city of the MSA, and the largest urban center of the Puerto Rican west coast. The city's economic base is oriented toward the manufacturing sector, followed by the government sector and commercial activities and services. The Mayaguez MSA has a total population of approximately 237 thousand. There are 61 populated census tracts, of which 11, or 18 percent, are LMI tracts. These LMI tracts contain a population of about 35 thousand, or 15 percent of the MSA's population, and 4 percent of the island's total population residing in LMI census tracts.

In May 1995, the unemployment level in the Mayaguez MSA reached 14.3 percent. The 1997 HUD adjusted median family income for the Mayaguez MSA is \$12,500. According to the Consolidated Plan for Mayaguez, ~~A~~there is a need for public housing stock for low and very low income families and there is also a need to rehabilitate public housing units.[@] Consolidated plans are submitted by counties and municipalities to HUD when applying for grants and subsidies. According to the Estudios Technicos Housing Demand Study, there is a need in the Mayaguez region for 19,842 housing units. This is the largest demand for housing units of any region in Puerto Rico. (See Exhibit B-19, page BB 75.)

MSA 0470 (ARECIBO, PR)

The Arecibo MSA has a total population of approximately 155 thousand. There are 36 populated census tracts, of which 5, or 14 percent, are LMI tracts. These LMI tracts contain a population of about 16 thousand, or 10 percent of the MSA's population. MSA 0470 contains 2 percent of the island's total population residing in LMI census tracts.

The Arecibo MSA contains the municipalities of Arecibo, Camuy, and Hatillo. In May 1995 the unemployment level in the Arecibo MSA reached 17.2 percent. The 1997 HUD adjusted median family income for the Arecibo MSA is \$11,700. Urban migration to the town of Arecibo from the surrounding rural areas has affected the balance of housing and community development requirements of the area. In addition, a climbing unemployment rate, particularly among the young, has altered the demographics of the districts within the municipalities. According to the Estudios Technicos, Housing Demand Study, there was a need in the Arecibo region for 13,846 housing units. (See Exhibit B-20, page BB 76.)

MSA 0060 (AGUADILLA, PR)

The Aguadilla MSA has a total population of approximately 128 thousand. There are 26 populated census tracts, of which 3, or 11.5 percent, are LMI tracts. These LMI tracts contain a population of about 8 thousand, or 6.6 percent of the MSA's population. MSA 0060 contains 1 percent of the island's total population residing in LMI census tracts. In May 1995 the unemployment level in the Aguadilla MSA reached 21.2 percent. The 1997 HUD adjusted median family income for the Aguadilla MSA is \$10,900.

The municipalities of Aguada, Moca and Aguadilla constitute the Aguadilla MSA. The city of Aguadilla is the center of economic activity within the northwestern region of the island of Puerto Rico. Sixty-five percent of the population is considered to be below, or bordering, the poverty line. The sectors generating the most employment opportunities are public administration, manufacturing and services, representing 46 percent, 30 percent and 26 percent respectively. According to the Estudios Technicos Housing Demand Study, there was a need in the Aguadilla region in 1990 for 7,389 housing units. (See Exhibit B-21, on page BB 79.)

NON-MSAs

The non-MSAs have a total population of approximately 543 thousand. There are 128 populated BNAs, of which 11, or 8.6 percent, are LMI. These LMI BNAs contain a population of about 32 thousand, or 6 percent of the non-MSA population. The non-MSAs contain 4 percent of the island's total LMI population. In May 1995, the unemployment level in the non-MSAs reached 21.2 percent.

There are 25 municipalities located in the non-MSA portion of the delineation, which is primarily in the southern and central section of the island. Of the 128 non-MSA BNAs considered for analysis, 8.6 percent are LMI. The central portion of the non-MSA portion is a very mountainous region, and has little agriculture and industry. The poverty rate in the non-MSA portion is the highest in Puerto Rico, and there is widespread dependence on federal assistance. The unemployment rate of 21.2 percent is the highest in Puerto Rico. There is a tendency to move away from these central areas, which are also called ~~the~~ the spinal cord of the island, because of the lack of employment opportunities. (See Exhibit B-22, on page BB 78.)

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community

STAFFORD/PRHECO STUDENT LOANS

At the end of 1995, federal law mandated that financial institutions no longer hold Stafford/Puerto Rico Higher Education Corporation loans (~~A~~Stafford/PRHECO~~@~~). Accordingly, throughout 1995 and 1996, the higher education institutions in Puerto Rico moved to direct loan

programs, which do not involve financial institutions as the student loan lender, and Banco Popular sold its existing student loan portfolio to the student loan marketing association (Sallie Mae) by the end of 1996. The portfolio included 2,137 loans totaling \$8.5 million. Even though the bank has no current Stafford/PRHECO loan portfolio, it initiated a College Access Plan Program, which acts as a referral and informational source for students who are seeking student loans. From January 1996 to March 1997, the bank provided assistance to 3,032 students through this program.

ELECTRONIC SERVICES

Since the previous examination, electronic banking services have become one of the bank's main priorities. While not banking products in themselves, these electronic services not only enhance the convenience of banking products, but also increase access to these products. Customer use of these services has grown dramatically, indicating that the bank is satisfying a need within its delineated community. According to the BanPonce Corporation 1996 Annual Report, the bank's electronic transactions in Puerto Rico have grown from 27 percent to 66 percent of all transactions from 1990 to 1996.

The following services have been created or expanded since June 1995:

Acceso 24

Throughout 1996, the bank's marketing department and outside consultants performed multiple studies to assess the demographic and behavioral characteristics of the unbanked, or individuals lacking any type of banking relationship. From the results of these studies, Popular created Acceso 24 in August 1996, to meet the needs of this previously unserved group. Acceso 24 is an ATH card (equivalent to an ATM network) for employees of various businesses which participate in a direct deposit system through Banco Popular. The bank does not require the employee to have a bank account in order to open or maintain this relationship. With this program, employees do not receive checks, but they can access their funds and all of the bank's electronic services without a charge.

ATH POP

Throughout 1996, Banco Popular conducted three studies to determine the credit needs and financial behaviors of the teen-age segment of its delineated community. In response to these studies, the bank created ATH POP. Initiated in December 1996, ATH POP is an electronic savings account for teenagers allowing access to the bank's ATH network and more than 11 thousand point-of-sale terminals throughout Puerto Rico. By January 31, 1997, the bank opened 11.5 thousand accounts.

PC Banking

The bank introduced PC Banking to its general customer base in March 1997. As of March 31, 1997, the bank has enrolled 2,970 customers in PC Banking. Through this product, customers can both access their Banco Popular accounts and conduct various transactions via their computers.

Rapi-Prestamo/Teleprestamo

These two service networks are geared to streamline and increase access to the loan application process for potential Banco Popular customers. Launched in April 1996, Rapi-Prestamo is the bank's network of automatic lending machines. Through this service, individuals can apply for Banco Popular loans utilizing a completely automated process. TelePrestamo is a telephone service developed by the bank in October 1996, through which can both apply and receive approval over the phone for personal loans, reserve credit lines, and credit cards. By December 1996, 25 percent of all loans and credit cards originated were approved through TelePrestamo.

Telebanco/Telepago

These two networks have been expanded since the previous examination. Telebanco is Banco Popular's 24-hour telephone information service, and Telepago is the bank's telephone payment system. During 1996, the hours of availability for customer representatives for both services were expanded to 11 pm. In addition, the bank added new merchants to Telepago and included Telepago as an optional feature in many of its lending products, usually lowering interest rates for customers as an incentive for utilizing the service. Use of these services increased from 1995 to 1996 by 66 percent for Telepago and 27 percent for Telebanco.

Web Site

In July 1996, Banco Popular established a Web site on the Internet. Through this home page, customers and potential customers can obtain more information about, and submit applications for, Banco Popular's products and services. The home page both enables the bank to reach a broader customer base and facilitates the use of the computerized banking services offered by Banco Popular.

NEW YORK STATE

RATING FOR NEW YORK STATE:

Banco Popular's level of compliance with the Community Reinvestment Act in the State of New York is assessed as **A Outstanding**. In New York, the bank is primarily a consumer lender and it has done an excellent job of meeting the consumer credit needs of its community. Also, the performance context within which the bank operates in New York indicates that two of the most critical needs in its community are for small business lending in order to support job creation and financing of multi-family rental property to provide affordable rental housing. (See Community Profile beginning on page BB 90 for details.) The bank has taken significant steps to meet these needs through substantial participation in community development projects and programs and through its small business lending activities. Small business and mortgage lending are well distributed across census tracts of different income levels, including low- and moderate-income tracts.

SCOPE OF THE EXAMINATION:

The examination covered the period June 1, 1995 through March 31, 1997. Information for consumer loans originated during the examination period was compiled by the bank. For small business loans, the bank compiled data for loans of \$750 thousand or less originated from June 1, 1995 through December 31, 1995. From January 1, 1996 through March 31, 1997, the bank submitted small business loan data consisting of all loans of \$1 million or less to businesses with annual gross revenues of \$1 million or less. HMDA analysis of 1995 and 1996 activity included approved home purchase and refinance loans as reported by the bank under Regulation C. Data for HMDA loans from January 1, 1997 through March 31, 1997 was compiled by the bank.

DESCRIPTION OF THE BANK'S OPERATIONS IN NEW YORK STATE:

The operations of Banco Popular New York State are conducted through 29 branch offices located in 4 counties of MSA 5600 (New York, NY) (**APopular-NY**). Banco Popular's Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks indicated that as of March 31, 1997, Popular-NY had total assets of \$1.7 billion and total loans and leases, net of unearned discount, of \$1.5 billion.

Popular-NY's delineated community is comprised of all of New York, Bronx, Queens, and Kings Counties in MSA 5600 (New York, NY). The bank's delineation was expanded on October 1, 1996, from portions of each of the four counties listed above. The expansion increased the number of census tracts within the delineation from 1,428 to 2,115, an increase of 48 percent. The number of LMI census tracts increased from 647 to 736, an increase of 14 percent. The population living within Popular-NY's delineated community, based on 1990 figures, increased approximately 38 percent from 5 million to 6.9 million.

The bank's delineation does not arbitrarily exclude low- and moderate-income areas and lending activity within the delineation is well distributed across census tracts of different income levels, including low- and moderate- income census tracts. Therefore, the delineation of the Popular-NY community is considered reasonable. Popular-NY is predominately a consumer and small business lender in New York City, consequently the evaluation of the bank's loan performance is primarily based on its consumer and small business lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CATEGORIES:

I. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Popular-NY strongly supports community development programs and initiatives through direct and indirect lending, and through qualified investments. At this examination, Popular-NY had \$17.8 million in community development in New York State (See Exhibit C-1 on page BB 92), compared with \$14.2 million at the previous examination. Of the current total, \$16.3 million or 91.8 percent is for affordable housing and \$1.5 million or 8.4 percent is for community services. Eight million dollars of the current total resulted from the purchase of 50 existing multi family mortgages from The Community Preservation Corporation (ACPC@), a private non profit mortgage lender specializing in financing LMI housing in New York City. This purchase of existing mortgages allowed CPC to invest additional funds in new projects in the community. The performance context for Popular-NY indicates that one of the most critical needs in the bank's delineation is for affordable rental units. Demographic information shows that renters in the Bronx, New York, and Kings Counties represent 70, 75 and 70 percent, respectively, of the total number of housing units in those counties. In Queens County renters represent 55 percent. Through its community development activities, Popular-NY has financed over 2.5 thousand affordable rental units in its delineation.

II. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Overall, Popular-NY demonstrated an excellent geographic distribution of loans in its delineation. This performance is attributed primarily to the number and distribution of the bank's consumer loans.

The geographic distribution of the bank's lending activity was determined through an analysis of consumer, small business and HMDA loans originated for the period June 1,

1995 through March 31 1997. Exhibit C-2 on page BB 93 details the geographic distribution of Popular-NY's consumer lending activity within its delineation. Exhibits C-3 and C-4 on pages BB 94 and 95 reflect small business lending activity. The estimate of demand for small business lending was based on the number of small business establishments with gross annual revenues of \$1 million or less within each geographic area.

Consumer Lending Summary

Popular-NY's record of meeting the consumer credit needs of its New York community, especially those living in LMI census tracts, is excellent. Consumer loan production is strong, as is the distribution of consumer loans across census tracts of different income levels.

Of the 14,812 consumer loans originated within the New York delineation, 9,901 or 66.8 percent were originated in LMI census tracts in the delineation. Only in Queens County, where LMI census tracts make up 12.1 percent of the total, was penetration in the LMI tracts less than in the non-LMI census tracts. In Bronx County, penetration in LMI census tracts were over four times greater than in non-low-LMI tracts, and in New York County the ratio of originations in LMI census tracts to originations in non-LMI census tracts was just under 4 to 1.

Small Business Lending Summary

The geographic distribution of Popular-NY's small business loans is reasonable. However, there was little or no small business lending in a number of the census tracts in the bank's delineation, including LMI neighborhoods in the Flatlands/Canarsie area of Kings County; the Riverdale/Kingsbridge and the Throgs Neck/Co-op City areas of Bronx County, and the Bellerose/Rosedale, Hillcrest/Fresh Meadows, and Howard Beach/South Ozone Park neighborhoods of Queens County. Despite these gaps, small business lending in LMI census tracts, as compared with small business lending in non-LMI census tracts, was strong. For the period June 1, 1995 through December 31, 1995, Popular-NY originated 213 loans within its delineation; 38 percent of which were originated in LMI tracts. This compares favorably with the percentage of LMI tracts in the delineation (35.7 percent). From January 1, 1996 through March 31, 1997 the percentage increased, in part because of the change in the definition of a small business loan. During this period, the bank originated 44 percent of its small business loans in LMI tracts. On a demand-adjusted basis, Popular-NY originated almost one and one-half times as many loans in LMI census tracts as in non-LMI census tracts in the June through December 31, 1995 period, and almost twice as many in the January 1, 1996 through March 31, 1997 period.

HMDA Lending Analysis

Overall, the geographic distribution of Popular-NY's HMDA lending was adequate. While the volume of the bank's HMDA-related lending was minimal, reflecting management's

focus on consumer and small business lending, the distribution of loans across census tracts of different income levels was excellent.

During the examination, the bank received 641 mortgage or refinance loan applications, and approved 490. Of the applications and approvals, 130 and 87, respectively, were from LMI census tracts. In addition, during the examination period, the bank received 333 home improvement loan applications, of which 183 were approved. Of the applications and approvals, 108 and 65, respectively, were from LMI census tracts. The demand-adjusted analysis of home purchase and refinance applications and approvals showed that, overall, the ratio of applications and approvals in the LMI census tracts exceeded those in non-LMI tracts by one and one-half and one and one-third times, respectively. When the counties are considered separately, all but Kings County maintained a better demand-adjusted approval performance in LMI areas than in the non-LMI tracts. On a demand-adjusted basis, home improvement loan ratios were over three times better in the LMI tracts than in the non-LMI tracts.

Assessment Factor G - The institutions's record of opening and closing offices and providing services at offices.

Popular-NY's primary system for delivering retail banking services is through its branch network, which provides products and services that are reasonably accessible to all portions of the bank's delineation. As of the examination date, Popular-NY had a total of 29 full service branches, and 24 ATMS. Seventeen or 59 percent of Popular-New York's branches are located in LMI areas. See Exhibit C-5 on page BB 96.

The bank had 30 branches in New York State at the commencement of the period covered by this examination, but closed and consolidated one branch during this period, leaving a total of 29 branches. Seventeen of the branches are located in LMI census tracts.

The bank consolidated/closed one branch during this examination period, due to an overlap of service areas. The closed branch, located at 247 Rockaway Parkway in Brooklyn, was consolidated on January 16, 1996 into an existing branch at 1620 Pitkin Avenue, Brooklyn, approximately one-half mile away. These two branches were located in contiguous LMI census tracts and it does not appear that customers were adversely affected by the action. Exhibit C-5 details the number of branches by county in MSA 5600.

Popular-NY's branch closing policy is adequate. The policy requires that prior to any relocation, consolidation or closing of a branch, consideration be given to factors such as branch profitability, actions to make the existing branch viable, and the availability of services in the area. Before closing a branch, bank representatives meet with elected neighborhood representatives and community groups to discuss measures to help keep the branch open or to minimize the impact of its closing on the community. If a branch is

closed, notices are mailed to regulatory agencies, interested community groups and customers at least 90 days prior to the proposed closing date.

All of Popular-NY's credit products are available at each branch. Applications for consumer loans are taken at bank branches. All underwriting for consumer loans is conducted at the bank's headquarters in Manhattan. Customers may inquire about mortgage loans at the branches and will be contacted by a mortgage representative before submitting an application. All but 3 of the 29 branches have extended hours.

III. TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor I - The institution's origination of residential mortgages, housing rehabilitation loans, home improvement loans, and small businesses or small farm loans, and consumer loans within its community, or the purchase of such loans originated in its community.

Popular-NY offers a variety of conventional and non-conventional fixed - and variable-rate real estate mortgage loan products for the purchase and refinance of single-family and multifamily residences. In addition, the bank offers other real estate loan products including commercial real estate loans, construction and development loans and rehabilitation loans.

The bank's Small Business Lending Group originates small business loans, some of which are guaranteed by the SBA. These loans focus on meeting the borrowing needs of small businesses in the bank's communities. The bank also originates loans to larger businesses, on a secured or unsecured basis, for various commercial purposes. Popular-NY offers consumer credit products that include Visa and MasterCard lines of credit, direct and indirect motor vehicle loans, home equity loans and lines of credit, overdraft checking lines of credit and secured and unsecured loans to individuals for all consumer purposes.

SPECIAL CREDIT PROGRAMS

Popular-NY continues to offer affordable housing loan products such as home equity loans and lines and the Good Neighbor Mortgage Program. Dream '97 is a new affordable mortgage program that the bank adopted in 1995. In addition, Popular-NY offers loans to inner-city businesses that might not otherwise qualify through the Anheuser-Busch small business loan program (see page BB 84). The bank also offers secured Visa and MasterCard Classic credit cards to applicants with little or no borrowing history so that they can establish a credit history.

Residential Real Estate Lending

The Home Equity Lending Program

This program, initiated in April 1995, offers applicants lower fees and interest rates, as well as expanded qualifying ratios. There are no closing costs on loans of up to \$100 thousand and interest rates are 1 percent below prime, for the first year of repayment. The applicant can qualify for this product with a 35 percent ratio of housing loan expenses to income and a 45 percent ratio of total debt payments to income.

The Good Neighbor Mortgage Program

This program offers lower interest rates, expanded qualifying ratios, and a lower required down payment than Popular-NY's conventional mortgage products. Interest rates of one-quarter of 1 percent below market are fixed for the life of the loan. Qualifying ratios are 33 and 38 percent, respectively compared to Popular-NY's conventional product ratios of 28 and 36 percent. The application fee is waived if the applicant attends one of the bank's home-buying seminars. A minimum down payment of 5 percent is required, but private mortgage insurance is required on loans with down payments of less than 20 percent. In addition, the bank will evaluate the timely payment of rent, utility bills or insurance premiums if the applicant cannot provide traditional credit references. The applicant may apply for a mortgage on cooperatives, one- to-four-family homes and condominiums. This is a first-time home buyers program and Popular-NY also uses the Good Neighbor Mortgage Program to make end loans on housing developed under programs sponsored by the New York City Housing Partnership and the New York Mortgage Coalition. The purpose of these organizations is to increase home ownership opportunities among LMI persons.

Dream 97

Popular-NY began to participate in Dream 97 in late 1995. In addition to allowing for a 97 percent loan-to-value ratio, this product offers lower interest rates; one-quarter of 1 percent below market rates, expanded qualifying ratios of 33 and 38 percent; a lower required down payment of 3 percent; and lower points than Popular-NY's conventional mortgage product. Private mortgage insurance is required on loans with down payments of less than 20 percent. The applicant must have an acceptable credit history, although non-traditional credit references may be used. Dream 97 loans are also made by the bank through the New York Mortgage Coalition.

Commercial Lending

Anheuser Busch/Banco Popular Small Business Loan Program

This program offers loans to support the financial needs of small businesses within inner city communities. Up to 75 percent of loan losses incurred on any one loan made through this program are covered by a loan loss reserve set up by the Anheuser Busch Company. Loans under this program are made to borrowers who would not normally qualify under Popular-NY's conventional small business loan programs. Interest rates are capped at prime plus two points. Loans can be used to expand working capital, make physical improvements to businesses, and purchase new equipment or fixtures. The annual sales revenue of the business cannot exceed \$500 thousand. The minimum loan amount is \$5 thousand, but most originations exceeded \$25 thousand. The maximum loan amount is \$100 thousand, with repayment terms of from two to five years.

Consumer Lending

Secured Visa/MasterCard Classic

These products provide applicants who might not otherwise qualify with access to bank credit. Applicants with no credit history, or limited credit history without a current delinquency of 60 days or more, may apply for a secured credit card. After 24 months, the bank evaluates the account and makes a determination as upgrading the customer to an unsecured credit card. The minimum line of credit offered by Popular-NY under these products is \$500 and the maximum is \$4,500. See Exhibit C-6 on page BB 97 regarding the bank's special credit programs.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small business, or small farms.

Popular-NY participates in a number of government subsidized mortgage loan and small business loan programs. These include several SBA loan programs, New York City Capital Access lending programs, the New York State Excelsior Linked Deposit Program, and SONYMA mortgage loan programs.

Commercial Loan Programs

New York City Capital Access Program

This program was formerly called the Small Business Reserve Fund and is designed to support and encourage lending to small businesses that would not normally qualify for conventional bank loans. Under the plan, the City of New York Economic Development Corporation and the participating bank each contribute 5 percent of the outstanding loan amount to a reserve fund to cover losses. The lender has the option, however, of requiring the borrower to make a contribution to the fund. Applicants for this program include New York City-based commercial, industrial, retail and agricultural enterprises, and not-for-profit corporations. Loans may be used for working capital, the purchase of fixtures, machinery and equipment and physical improvements.

Small Business Administration Lending

Popular-NY is one of the most active SBA lenders in New York, and offers several types of SBA products in addition to the standard program. These include the SBA Low Doc program, which provides loans of \$100 thousand or less targeted to new business with fewer than 100 employees and annual sales below \$5 million; the SBA Delta Program, which assists ****small businesses that are adversely affected by defense spending reductions or are dependent on defense contracts as prime or sub-contractor; and the SBA Women's Pre-qualification program, a program targeted to businesses with the majority ownership interest held by women or ethnic minorities. The bank also offers loans under the SBA 504 Loan Program with the guaranteed portion of the loan made through a Small Business Certified Development Company (ASBCD®) which provides a 50 percent guaranty. The proceeds can be used to finance the purchase of land, buildings and fixed assets for terms of up to 20 years.

New York State Excelsior Linked Deposit/Loan Program

This state program, which Popular-NY participates in on a limited basis, was created to improve the performance and competitiveness of eligible businesses by enabling them to obtain loans with interest rates two to three percentage points below prevailing rates. New York State subsidizes the interest rate of the borrower by depositing a Certificate of Deposit in an account at the participating bank for the loan amount and accepting two to three points less than market interest rates. Eligible businesses include manufacturing firms with 500 or fewer New York State-based employees, and independently owned and operated service businesses with 100 or fewer full-time New York State-based employees. Defense industry manufacturers, SBCD - certified minority- or women-owned businesses, and firms in economic development zones as well as in highly distressed areas are also eligible for loans under this program.

Real Estate Mortgage Programs

SONYMA (State of New York Mortgage Agency)

This loan program provides qualified LMI households with mortgage loans on one- to four-family dwellings, including cooperatives and condominiums and mobile, and manufactured homes. Interest rates and down payments are lower than for conventional Popular-NY mortgage products, and qualifying ratios are higher. Private Mortgage Insurance is required for all loans for which the down payment is less than 20 percent. SONYMA targets LMI areas for development by providing special incentives to applicants, such as allowing higher income and purchase price limits. The maximum qualifying annual income for an applicant in one of New York City's target areas is \$58 thousand; for non-target areas the maximum is \$49 thousand. Similarly, the home purchase price limit in target

areas is \$204 thousand as compared with \$167 thousand for non-target areas.

Consumer Lending

Sallie Mae (Student Loan Marketing Association) Guaranteed Student Loan Program

Under this program subsidized loans are available to the student through various Stafford loan programs and to parents through the PLUS program.

See Exhibit C-7 on page BB 98, concerning government - subsidized lending programs.

CONCLUSIONS WITH RESPECT TO ASSESSMENT FACTORS AND CRITERIA THAT PERTAIN SOLELY TO THE CRA PROCESS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The bank's efforts to ascertain community credit needs are outstanding. Ascertainment of community credit needs is coordinated by Popular-NY's Director of Community Affairs and CRA Officer, through the CRA Committee. The seven-member committee is co-chaired by the CRA Officer and the District Manager. The District Manager also holds the position of U.S. Eastern Regional Manager. Committee members include the vice presidents of the finance, marketing, and credit risk management departments, the Commercial Credit/Small Business Banking Group, and the retail banking department. Ascertainment of community credit needs is developed through an officer call program, questionnaires distributed to community organizations and officer and staff community involvement. The results of these efforts are compiled quarterly in a report prepared by the CRA Officer and distributed to management through the CRA Committee. The report also includes information on HMDA-related and small business loan distribution, a review of special loan products funded for the quarter, and samples of the advertising copy used during the quarter.

Call Program

Under this program, branch managers are required to make at least ten calls per month: seven to prospective and existing business customers, and three to community-based organizations. The business contacts are followed up by small business loan teams which operate in the field. There are currently two teams in operation; one, out of the East Fordham Road office, covers the Bronx and the northern part of Manhattan, and the other, out of the Jackson Heights office, covers Brooklyn and Queens. During the period from June 1995 to March 31, 1997, a total of 11,330 visits were made by branch managers to 8,415 small business prospects and 2,037 community-based organizations. Every branch office participated in this program so that every part of the delineated area was canvassed. Over a period of several years, over 5,000 contacts have been made with community organizations through this program.

Questionnaires

The Community Needs Study Questionnaire is distributed to all community organizations that are contacted by or which make contact with Popular-NY. The document attempts to ascertain what a group thinks about the credit needs of its community, and how those needs are being met by the banking industry in general and Popular-NY in particular. A total of 545 questionnaires were returned to the bank between June 1995 and March 1997. During 1996, 43.7 percent of the questionnaires were received from New York County, 33.6 percent

from Kings county and 16.4 and 6.3 percent from Bronx and Queens Counties, respectively.

Officer and Employee Participation in Community Organizations

Officers and branch employees are involved as directors or members of business or charitable organizations throughout the delineated area. The CRA Officer has a record of involvement which includes a 15-year term as President of the Southern Boulevard Neighborhood Improvement Development Corporation, 2 years as Chairman of Community Planning Board #2, and an appointment by the Mayor of the City of New York to the board of the Brooklyn Navy Yard Development Corporation, which provides incubator-style support to 200 small businesses. He is also a founder and board member of the New York Mortgage Coalition. Other bank officers serve as members of Hunts Point Local Development Corporation, SEBCO Development Company Inc., Comprehensive Community Development Corp., East Harlem Interfaith, El Barrio Operation Fight Back, Inc., Bushwick Geographic Targeting Task

Force, Local Development of East New York, Brownsville Community Development Corp., Washington Heights and Inwood Development Corp., Elmhurst Economic Development, Brooklyn/Staten Island Minority Business Development, and Promesa Foundation Inc.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

As a result of the distance and market differences between New York and Puerto Rico, considerable autonomy has been given to management in the New York Region in determining how the Region should meet its CRA obligations and administer the CRA program.

The New York Region has an effective program in place to ensure that senior management and the board of directors are aware of the bank's ascertainment efforts. They are actively involved in the formulation of policy and in reviewing the bank's CRA performance. The New York Region's 1996 CRA Policy Statement defines the responsibilities of the board of directors and the region's CRA Officer and CRA Committee. The board of directors is charged with keeping informed about the region's CRA performance through periodic self-assessments and regulatory agency reports.

The CRA Officer is responsible for administering the CRA program and reporting to senior management and the CRA Committee. The CRA Committee is required to meet annually, though it meets quarterly as a matter of practice, and is responsible for the ongoing

development of the CRA program, monitoring the bank's CRA performance, overseeing CRA training and making recommendations for the improvement of the New York District's CRA performance.

A review of the CRA Committee's activities shows the active involvement by officers in overseeing, reviewing and participating in the bank's CRA efforts. The CRA program is well-coordinated and designed to keep senior management informed of all CRA activities. In addition, an annual assessment performed by the CRA Committee ensures that all the major strengths and weaknesses of the CRA program are identified.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Popular-NY's marketing program informs all segments of its delineated community, including LMI communities, of the availability of its credit products and banking services. The bank uses a multi-faceted approach that relies upon print and radio advertising as well as direct mail, statement inserts, brochures and branch promotions. Between July 1, 1995 and March 31, 1997, the banks placed approximately 1.7 thousand advertisements in print and on radio. The majority of these advertisements promoted the bank's image, but advertisements for small business lending, home loan products, and deposit products were also included. The number of print and radio advertisements is down considerably from the prior examination. This is because Popular-NY used such advertisements in the past to gain name recognition, and management now believes that the bank has achieved this goal.

RADIO

Popular-NY utilizes radio as its primary media advertising tool. During the examination period, the bank ran approximately 1.3 thousand spots on the following stations with the following formats: WBLS and WRKS, both African-American and urban contemporary formats; WLTW, a contemporary format; WCBS-AM and WINS, both all- news broadcasts; and WPAT, an easy listening format. Bloomberg Radio carried 214 spots regarding business seminars and business lending.

PRINT MEDIA

From July 1, 1995 through March 31, 1997, approximately 200 print advertisements were placed in major regional newspapers and magazines; in local daily, weekly and monthly newspapers; and in trade publications. Major publications included *New York Times*, *the Daily News* and *Newsday*. Many specialized publications, including *Caribbean Life*, *Carib the News*, *El Resumen*, *El Diario*, and the *City Sun*, were used to target minority and ethnic communities. Local publications utilized included the *MM News*, *Crains*, *Courier Life*,

Brooklyn Heights Chronicle, and *Queens Ledger*.

SEMINARS

Real Estate Mortgage Outreach Events

During the examination period, the bank conducted 94 home mortgage seminars; as follows: 12 in Queens, 27 in Manhattan, 8 in the Bronx, and 47 in Brooklyn. Approximately a third of these events were co-sponsored by nonprofit organizations such as the New York Urban League, Asian Americans for Equality, the University Neighborhood Housing Program, and the Neighborhood Housing Services of East Flatbush. Attendance at these seminars ranged from 5 to over 300 people at each event. Popular-NY also participated in two (AFNMA@ mortgage fairs conducted by Fannie Mae (formerly the Federal National Mortgage

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

COMMUNITY PROFILE

MSA 5600 consists of the five counties of New York City (Bronx, Kings, New York, Queens and Richmond) as well as the northern counties of Putnam, Rockland and Westchester. This MSA represents 47.5 percent of New York State's entire population.

Popular-NY's delineated area is found in four of the New York City counties: Bronx, New York (Manhattan), Kings (Brooklyn) and Queens. These counties encompass 85 percent of the MSA's census tracts (2,115 out of 2,497). They also contain 789 LMI tracts, or 96 percent of the LMI tracts within the MSA. Kings County alone contains 41 percent of the LMI tracts while the Bronx has 25 percent of such tracts. Bronx, Kings and New York Counties are characterized by tracts with highly concentrated pockets of inner city blight, low rates of owner occupancy and high rates of vacancy, abandonment and crime.

The City of New York experienced an unemployment rate of 8.7 percent in April 1996; the state rate was 6.4 percent. That rate rose to 9.7 percent in March 1997, while the state rate dropped to 6.3 percent. The source of these statistics is the U. S. Department of Labor, Bureau of Labor Statistics.

According to the most recent census figures with regard to types of employment, compiled in 1995, the services industry is by far the leading employer in New York City providing 35 percent of total employment. The retail/wholesale segment provides 18 percent of employment and finance/insurance/real estate 13 percent.

A substantial majority of the community contacts in the New York City area concluded that small business loans represented the primary credit need in the area, and statistics reviewed at this examination support those conclusions. The high unemployment ratios indicate a need for additional jobs and the primary employers in the area are in the services or the wholesale and retail trade industries.

Another credit need identified by community contacts and supported by demographic information is the need for affordable rental housing. The MSA's median family income is \$37.5 thousand; however, for the individual counties in the bank's delineation the figure varies greatly from \$25 thousand in the Bronx to \$30 thousand in Kings County to \$36.8 thousand in New York County and \$40.4 thousand in Queens County. The percentages of those living below the poverty line range from 16.8 percent in New York County to 26.9 percent in Bronx County. Further, elderly households in the MSA barely reach a median income of \$19 thousand. With a median housing value in the MSA, according to the 1990 Census, of \$207 thousand, it is readily apparent that home ownership is not affordable for most households.

Rental housing is the predominant form of housing in New York. Renters as a percentage of families in the Bronx, New York, Kings, and Queens Counties represent 79 percent, 75 percent, 70 percent and 55 percent, respectively. In low-income areas, the percentage of renters is even higher. For example, in the Mott Haven and Hunts Point communities in the Bronx, where the median household income was \$6.8 thousand, according to the 1990 Census, 95.2 percent of the households were renters. In Central Harlem, in New York County, where the median household income was \$8.5 thousand, 95.7 percent of the households were renters.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Popular-NY has developed two deposit accounts that respond to the particular banking needs of LMI persons. The first is called Basic Checking, which requires a minimum deposit of \$25 to open, and provides for six checks and four non-Popular-NY ATM withdrawals per month for a \$3 monthly maintenance fee. The second is called Lifeline Statement Savings. This account requires a minimum deposit to open of \$10, and provides for two free monthly withdrawals.

Donations

From June 1995 through December 1996, the bank made 293 donations and grants to various nonprofit organizations within the delineated area for a total of \$299 thousand. Donations

were disbursed to cultural, educational, religious, and social service organization in amounts ranging from \$60 to a Manhattan day care center to \$25 thousand to the National Puerto Rican Coalition.

The bank also participates in the annual AChristmas in April@Program which is coordinated by a group of non- profit organizations. Each non-profit selects the home of an indigent senior citizen and assigns a bank or business group to perform the repairs. Popular-NY has been involved over the last few years in repairs to homes in the south Bronx. As many as 70 bank personnel have volunteered for a day for such home improvement work.

UNITED STATES VIRGIN ISLANDS

RATING FOR THE UNITED STATES VIRGIN ISLANDS

The bank's level of compliance with the Community Reinvestment Act in the United States Virgin Islands (AUSVI) is considered outstanding. The bank's overall rating in this portion of its delineation is supported by the bank's record of participation in the recovery of the Islands in the aftermath of hurricanes which struck the islands in late 1995. The bank was responsive to the community's needs, and loan originations were reasonably distributed among the respective communities in the islands.

SCOPE OF THE EXAMINATION:

The examination period covered activity between June 1, 1995 and March 31, 1997. Mortgage, home improvement and small business loan origination data were supplied by management, since reporting requirements under Regulation C, Home Mortgage Disclosure, are not applicable with respect to dwellings in United States Territories.

DESCRIPTION OF THE BANK'S OPERATIONS IN THE UNITED STATES VIRGIN ISLANDS:

As of March 31, 1997, the bank maintained seven full service retail branches in the USVI. The five branches located on St. Thomas are in the communities of Charlotte Amalie (two), Fort Milner, Red Hook and Sugar Estate. The two offices on St. Croix are located in Christiansted and Sunny Isle. There are no branches on St. John.

Banco Popular's delineation in the USVI includes the non-MSA islands of St. Thomas, St. Croix and St. John. The total population in the delineation is approximately 102 thousand, and represents approximately 1 percent of the total population in the bank's overall delineation. As of the 1990 census, there were approximately 39 thousand housing units in the USVI. Two hurricanes that damaged the islands in 1995 greatly reduced this number and an exact count of housing units remaining is not known at this time.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CATEGORIES

I. COMMUNITY DEVELOPMENT

Assessment Factor H- The institution's participation, including investments, in local community development and redevelopment projects or programs.

Banco Popular's level of community development activity in the USVI is outstanding. Over \$14.6 million or 13.6 percent of the bank's total community development activity was in the USVI. Popular's strong level of activity was in response to the serious needs for credit after the widespread devastation caused by Hurricane Marilyn in September 1995. The hurricane caused extensive damage to the island's infrastructure, tourist facilities, and housing stock.

Economic development projects accounted for 86 percent of the community development activity. Of particular mention is a \$12.5 million unsecured loan to a public utility to restore power and provide fresh water to the citizens of St. Thomas. Thirteen percent of the community development activity was for affordable housing, and resulted in the construction of 310 units of affordable housing, 96 of which were emergency housing units resulting from the effects of the hurricanes. The remaining \$110 thousand of community development activity was directed toward community services. See Exhibit D-1 on page BB 105, concerning USVI community development activities.

II. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

HOME IMPROVEMENT ACTIVITY

Home improvement loan approvals in the USVI totaled \$12.1 million, representing 279 loans. Of the 279 loans, 71 percent (197 loans) were approved on the Island of St Thomas and 16.9 percent (47 loans) were approved on the island of St. Croix. Home improvement lending on St. Thomas was significantly higher as compared with that on St. Croix, as a result of the severe impact that Hurricanes Luis and Marilyn had on the island's housing stock in late 1995.

MORTGAGE ACTIVITY

Mortgage and refinance loan approvals in the USVI totaled \$12.1 million, representing 112 loans. Of the 112 loans, 58 percent (65 loans) were approved on the island of St. Croix and 42 percent (47 loans) were approved on the island of St. Thomas. Mortgage and refinance lending on St. Thomas was very limited as a result of the severe impact of Hurricanes Luis

and Marilyn, as discussed above.

SMALL BUSINESS ACTIVITY

Small business loan originations in the USVI totaled \$18.8 million, representing 117 loans.

Of the 117 loans, 62 percent (73 loans) were approved on the island of St. Thomas, 36 percent (42 loans) on the island of St. Croix, and less than 2 percent (2 loans) on the island of St. John. The bank's small business lending volume was limited as a result of hurricane damage, as discussed above, which closed many businesses, and by the establishment of a direct lending, low interest rate SBA loan program designed to stimulate rehabilitation of the islands after the hurricanes. The direct lending program provided loans at 4 percent interest.

Assessment Factor G - The institution's record of opening and closing offices and providing services.

The number and location of Banco Popular's branches are discussed in the ADescription of the Institution's Operations in the United States Virgin Islands (USVI)@in the prior section of this report. Banco Popular maintains an adequate branch closing policy which conforms to the Joint Interagency Policy Statement Regarding Branch Closings.

Since the previous examination, no offices have been opened or closed in the USVI community delineation.

III. TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or farm loans within its community, or the purchase of such loans originated in its community.

Banco Popular offers a broad range of lending products to help meet the credit needs of its delineated community in the USVI, including LMI areas. With the exception of reverse mortgages and agricultural loans, products offered in the USVI are the same as those offered in Puerto Rico and are described beginning on page BB 12 of this report. Reverse mortgages are not available because there is not a HUD-certified counselor in the USVI.

Assessment Factor J - The institutions' participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Banco Popular actively participates in government-secured housing and small business loan

programs throughout its delineation, including LMI areas. The bank originates housing loans through the FHA, the VA, and RD Rural Development programs. Banco Popular lends to small businesses in conjunction with the SBA.

CONCLUSIONS WITH RESPECT TO ASSESSMENT FACTORS AND CRITERIA THAT PERTAIN SOLELY TO THE CRA PROCESS, DEMOGRAPHICS, AND ECONOMIC FACTORS

IV. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution-s efforts to communicate with members of its community regarding the credit services being provided by the institution.

Banco Popular has an effective program in place to identify the credit needs of its USVI community. The CRA Officer in Puerto Rico is responsible for administration of the CRA program in the USVI, and for the ascertainment of community credit needs. In the USVI, the ascertainment process is carried out by local management and employees through ongoing, meaningful contact with a broad range of community groups and leaders, as well as governmental entities and nonprofit and for-profit developers. Management also studies key demographic and market data such as employment levels, population trends, and economic overviews. There is regular communication between the CRA Officer in Puerto Rico and the USVI staff to coordinate the identification of local credit needs.

Officers and employees regularly meet with such organizations as The Virgin Islands Housing Finance Authority, The University of the Virgin Islands Small Business Development Center and RD program representatives. The participation of these organizations opens the channels of communication between the bank and various segments of the community. The Regional Manager and other key officers are actively involved with the Government Development Bank in the USVI and mortgage officers participated with officials from the VA in ascertainment meetings conducted on St. Thomas, St. Croix and St. John.

Assessment Factor C- The extent of participation by the institution-s board of directors in formulating the institution-s policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Banco Popular-s board of directors oversees the CRA program for both the Puerto Rico and USVI communities. The USVI CRA program is managed by the CRA Officer in Puerto Rico, and information relative to activities and performance in the USVI is reviewed and evaluated by the board. A complete discussion regarding board participation in the bank-s CRA efforts is described beginning on page BB 14 of this report.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

In the USVI, Banco Popular has an effective marketing program that reaches all portions of the bank's delineation. The marketing program, managed from Puerto Rico, employs radio and seminars primarily, in addition to print media, to enhance awareness of both the bank and its products.

Overall, advertisements for the bank's consumer loan and deposit services were broadcast on seven island-wide radio stations. Officers and employees participated in several programs sponsored by the Virgin Islands Housing Finance Authority, including a home-buyers education program, a housing fair and a program on home mortgage financing. Officers also made presentations at the Small Business Development Center of the University of the Virgin Islands.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

COMMUNITY PROFILE

The demographic and statistical information used in this analysis was obtained from the U. S. Department of Commerce-Bureau of the Census, the USVI Department of Labor and the USVI Housing Authority.

The USVI, located about 70 miles east of Puerto Rico, consists of three major islands and 50 smaller islands and cays. These are a self-governing unincorporated territory of the United States and have elected their governor and legislators since 1970. The bank's delineation includes the three main islands of St. Thomas, St John and St. Croix, which contain almost 100 percent of the territory's population.

The population in 1990 was 102 thousand, with 50 thousand residing on St. Croix, 48 thousand on St. Thomas and 3.5 thousand on St. John. Approximately 52 percent of the land on St. John is a national park reserve. The per capita income for the territory in 1995 was \$12 thousand, so that one-third of the population is classified as living in poverty.

There are approximately 39 thousand occupied housing units in the USVI, the majority

of which are equally divided between St. Thomas and St. Croix. Almost 52 percent of the units are owner-occupied. Approximately 49 percent of residents are renters. Although owners of private houses tend to create apartments for rental because of high construction costs, the majority of renters reside in public housing. There is little housing in the USVI that sells for below \$150 thousand. The lack of affordable housing is the result of the diminishing availability of owned land suitable for residential development, the high cost of available land, and the small size of the construction industry on the islands.

The territory's economy is primarily based on tourism, and two-thirds of its gross product is derived from this source of revenue. Other economic activities, located primarily on St. Croix, include the manufacture of rum, petroleum refining, watch assembly, and the production of textiles, electronics, pharmaceuticals and perfume. The Hess Oil Refinery, on St. Croix, is the largest private employer in the territory. The federal and territorial governments employ about 25 percent of the labor force. Service industries provide 34 percent of jobs, retail trade accounts for 20 percent and construction and manufacturing represent 13 percent.

Late in 1995, the islands were devastated by Hurricanes Luis and Marilyn. These storms severely affected housing units, businesses and jobs. Local officials estimated that 75 percent of the housing units on St. Thomas and 10 percent of the housing units on St. Croix were damaged or destroyed. Damage on St. John was minimal. Further, it is estimated that these storms caused the loss of 2,500 jobs, and total employment declined by 5.2 percent. Almost one out of every three private sector jobs was lost in the tourist sector, the mainstay of the territory's economy. Extensive damage to the island's infrastructure and tourist facilities hampered efforts to generate job growth in 1996. As of April 1997, the USVI labor force totaled 45,920 people, with an overall unemployment rate of 5.7 percent.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Deserving of special mention is Banco Popular's response to Hurricane Marilyn in September 1995. The bank responded quickly to the needs of the devastated community by reopening its branch operations immediately following the hurricane, in order to meet regular banking needs. Furthermore, the bank automatically granted two-month payment extensions on all consumer loans and credit cards, and provided payment extensions for mortgages and commercial loans according to individual circumstances. Finally, Banco Popular created a reconstruction fund for the rehabilitation of affected communities, donating \$100 thousand to initiate the fund.